Management Board Report

on the activity of Bank Millennium S.A.

for the 12 month period ended 31 December 2011

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LETTER FROM THE CHAIRMAN OF THE BANK'S MANAGEMENT BOARD

Dear Sirs,

I am truly pleased inviting you to read the 2011 Bank Millennium Group Annual Report and the accompanying Corporate Responsibility report.

This has been a good year for Bank Millennium Group. Although we operated under pressure from adverse events on global markets, the most spectacular of them being the debt crisis of some Eurozone countries, we successfully continued to implement our strategy. It assumed sustainable growth in the key business areas as well as lasting improvement of operational profitability.

Due to the highly volatile business environment, in 2011 the Bank was attaching particular importance to matters connected with risk and liquidity management as well as observance of stringent operating security standards. At the same time the last twelve months have been a "year of quality". During this period the Bank implemented an operating quality improvement programme, assuming growth of customer satisfaction with provided services, increasing their loyalty and boosting cross-selling. The effects of these actions made the Bank successful in prestigious rankings, formed both on the basis of experts' opinions as well as Customer votes. Their list is shown further in the report.

Bank Millennium Group closed 2011 with net profit of PLN 466.5 million. This was the highest profit in the Group's history (excluding non-recurrent events). The Bank saw a marked improvement of operating efficiency: fast income growth (10.1% year-on-year) was accompanied by keeping costs under close control (3.9% year-on-year increase), which enable improvement of the cost/income ratio to the lowest level in years (59.5%). With improvement of the quality of assets, the cost of risk came down to 0.45% of net loans during the last year. The Bank maintained its capital ratios at a high and safe level: Tier 1 was 11.4%, while total CAR was 13.2%. Extremely important for building the foundations of further growth was the increase of deposits (by 5.7% year-on-year) and of loans to companies (16% year-on-year). The "Dobre Konto" account, an innovative product for private customers launched in 2011, was a market success. The Bank opened 180,000 such accounts, with the total increase in the number of new Customers in the course of last year was 220,000. The 2011 results prove that Bank Millennium Group is capable of pursuing an ambitious market strategy, also in times of economic turbulence. Please read the detailed information about business activity and results of Bank Millennium Group, shown on further pages of this report.

At the upcoming General Shareholders' Meeting, which will look at the Bank's last year's results, the Management Board will follow the recommendation from Polish Financial Supervision Authority to propose to Shareholders to retain all 2011 earnings in the Bank's capital. This will allow the Bank to strengthen its capital foundations.

In 2012 Bank Millennium will continue its sustainable development in all areas of activity. The Bank will continue to focus special attention on building lasting, mutually beneficial relationships with all groups of its Customers. The underlying rule will be to pursue business activity in a responsible and ethical way, based on the value, which the Millennium brand represents.

Sincerely yours,

Bogusław Kott
Chairman of the Management Board of Bank Millennium

I. MARKET CONDITIONS IN 2011 AND BUSINESS PROSPECTS

I.1. Macroeconomic environment

In 2011 macroeconomic environment in Poland improved further after good year 2010, when the economy recovered after slowdown caused by the global financial crisis. GDP growth accelerated to 4.3% from 3.9% recorded in 2010 and, similarly to previous years, exceeded the expectations from the beginning of the year. High pace of the economic growth was achieved despite the slowdown in the Eurozone that deepened in the second half of the year as the consequence of intensified debt problems of some countries of the zone. It is expected that the Eurozone may fall into technical recession after 1st quarter of 2012, what means the quarterly decline of the GDP for two periods in a row. Polish growth last year was underpinned by private consumption and investment rebounding after two years of contraction. On the supply side a double-digit growth of value added in construction was observed, which was supported by high level of EU-financed investment in infrastructure. Solid value added growth was recorded in both manufacturing and trade.

In 2011 individual consumption increased by 3.1%, and similarly to the previous year, private consumption was responsible for c.a. half of the annual GDP growth. During the year registered unemployment was higher than in the corresponding months of 2010, which can be connected with reduced scale of active labour market policies and the worsening of enterprise expectations, that refrained them from hiring. At the end of the year registered unemployment rate was equal to 12.5% as compared with 12.4% in December 2010. Corporate sector employment started its gradual decline in the second half of the year, but thanks to the growth from the first months of the year, in December it was by 2.3% higher than at the end of 2010. During the year companies with more than 9 employees hired 124 thousand people, similarly to 2010. Average wage in the enterprise sector increased in 2011 by 4.8% in nominal terms, but in some months of the year wage growth was smaller than inflation. In a year average compensation of the employee grew by 0.6% in real terms after growing by 1.0% in 2010.

In 2011, investment in fixed assets rebounded after two years of contraction. Investment was growing mainly thanks to high activity in the field of infrastructural investment. These outlays were financed by the government with strong involvement of the EU funds, and were intensified before football tournament EURO 2012. Additionally, in the second half of the year one could observe rebound in corporate investment. After ten quarters of annual decline, outlays for machinery and metal products increased supported by high capacity utilization, good financial standing of the companies and low investment rate in the economy. The companies were restoring their capacity, but the uncertainty regarding economic prospects refrained them from expansion. Investment in fixed asset increased by 8.7% in a year.

External balance had neutral contribution to the economic growth in the first half of 2011. Volumes of both exports and imports were growing at a solid pace that was however slightly smaller than a year before.

Worsening of the business sentiment and growth slowdown in the Eurozone countries caused slowdown of the Polish exports dynamics. Imports followed weakening exports as foreign sales in Poland are import-consuming. Additionally weak zloty improved the competitiveness of domestic production over imports. The current account deficit narrowed to c.a. 4.1% of the GDP from 4.6% in 2010. The deficit is thus at a relatively low level that does not threaten PLN stability. Additionally it is financed by a stable inflow of foreign direct investment and EU funds.

First half of the year brought stabilization of the Polish zloty that in relation to euro was quoted in the range 3.90-4.10. Polish currency was supported by strong economic fundamentals and good sentiment on the international financial markets. The picture changed in summer as debt crisis in the Eurozone intensified. In the second half of the year strong depreciation of Polish zloty was observed. In a year Polish zloty lost 11.5% against euro and 15.3% against American dollar and at the end of the year NBP fixing was equal to 4.4168 and 3.4174 respectively. The situation was especially volatile when it comes to CHF/PLN exchange rate. In August the exchange rate on interbank market reached the record high of 4.10, as a result of weak zloty and extremely strong Swiss franc in relation to euro. Swiss central bank in order to stop excessive appreciation of the currency announced on 6th September 2011 that it will no longer tolerate EUR/CHF rate below 1.20 and said it will defend this level with all the possible means. As a result CHF/PLN exchange rate was equal to 3.6333 at the end of the year and by 14.8% higher than at the beginning of 2011.

In 2011 inflation was higher than the upper bound of the NBP target set at 3.50%. Annual growth rate of consumer prices accelerated from 3.6% in January to 5.0% in May, the highest level in almost 10 years, and was equal to 4.6% in December. Average annual inflation increased to 4.3% from 2.6% in 2010. The price growth resulted from numerous supply-side factors such as growing fuel and food prices as well as administrative decisions including increased VAT rates, growing prices of utilities and medicines. Inflation was also raised by zloty depreciation. In 2011 core inflation measures were growing as well: inflation excluding food and energy increased from 1.6% in January to 3.1% in December and since mid-2011 it has been higher than the inflation target (2.5% +/-1%).

Official rates were hiked as a response to the above-the-target inflation. Monetary Policy Council headlined, that high inflation is a result of factors that are outside of the influence of the domestic monetary policy, but was afraid of inflation expectations staying at the elevated level. In the first half of the year rates were hiked by 100 basis points, and reference rate has increased to 4.50%. Foreign exchange market was very volatile and, as a response, the MPC used monetary policy tool of direct interventions on the currency markets that was forgotten in the previous years. The NBP sold foreign currencies six times in order to limit excessive PLN depreciation.

Last year general government deficit remained at the elevated level, but the fiscal policy was substantially tightened. The general government deficit probably declined to 5.6% of GDP from 7.8% in 2010. In 2011 in order to limit the growth of public debt the government implemented changes in the pension system. The contribution paid to OFE (Open Pension Funds) was reduced to 2.3% from 7.3%, and the rest of it is being transferred to ZUS (Public Social Security Fund). In January 2011 VAT rates were increased by 1 percentage point. The income situation of the state budget was good, supported by solid GDP growth and high inflation. At the same time control over budget expenditures made it possible to limit the state deficit, which after the whole year was by c.a. 10 billion zlotys lower than the plan of 40.2 billion. European Commission assessed that Poland is making progress in reducing the excessive deficit in the required term, which may lead to the end of the excessive deficit procedure in 2013. Public debt was growing following fiscal deficit, but according to the preliminary estimates made by the Ministry of Finance, it was lower than the second threshold of 55% and was equal to 54% of GDP.

In 2011 safe forms of saving such as bank deposits were very popular among households. Growth of household deposits was supported by their good income situation and high uncertainty on the financial markets that discouraged from more risky investment. Households deposits were growing in almost every month of the year and in December were by 56.2 billion PLN and 13.2% higher than a year before. Corporate deposits were also growing systematically, which was connected with good financial standing of the companies and low investment activity. In a year it increased by 24.6 billion PLN i.e. 9.4%.

In 2011 one could observe revival of loans to corporate sector, which may be connected with growing investment activity of the companies resulting from high capacity utilization. Corporate credit increased by 16.7 % year-on-year, but a part of the growth was caused by Polish zloty depreciation that increased PLN value of FX-denominated loans. We estimate that, excluding FX factor, corporate credit increased by 13.4% year-on-year. In 2011 growth of credit to households slowed down, mainly in the segment of consumer loans. The portfolio dynamics was heavily influenced by changes of CHF/PLN exchange rate and in December was higher than a year before by 11.9% and by 6.5% excluding FX factors. In 2011 the average quality of credit portfolio improved, which was connected with improvement in the corporate sector and some deterioration in household sector, especially in case of consumer loans.

In 2012, as a result of possible recession in the Eurozone, we expect economic growth in Poland to deteriorate. It has already been suggested by business tendency indicators for the last months. We expect that the GDP will grow by 2.9% in 2012. We think that private consumption that will grow by 2.8% will remain the pillar of the economic growth. We also expect continued growth of investment outlays that are likely to increase by 4.0%. We expect some revival of corporate investment while public investment is likely to deteriorate, as the consequence of the end of recent infrastructural projects. Net exports are likely to have positive impact on the GDP as we expect deterioration of domestic demand, and consequently imports. Labour market conditions could worsen and end-year registered unemployment might be higher than 13%. CPI inflation is likely to slow down, as a result of statistical base effects. In our opinion it may incline the MPC to cut rates: at the end of the year the reference rate may be equal to 4.00%.

I.2. Implementation of strategy and business development prospects

During 2011 year Bank Millennium was continuing its strategy focusing on business development in Poland by combining sustainable growth of business with further improvement of profitability. The strategy was being realized despite the process initiated in July 2011 by the parent company – Millennium BCP – aimed at analyzing different options of value creation in Poland, including potential sale of the Bank. Finally, in December 2011 Millennium BCP decided to keep Polish operation and to continue support strategy of an organic growth in Poland done through Bank Millennium, which remains the biggest international (non-Portuguese) part of Millennium BCP Group.

In terms of business development, Bank Millennium Group achieved a visible growth in 2011 in both deposits and loans: deposits grew by 5.7% and loans portfolio by 12.5%. The main product developed and sold to active individual customers during 2011 was a new current account – "Dobre Konto" ("Good Account"). It is directed to active clients fulfilling minimum conditions (e.g monthly inflow) and gives in exchange many attractive features like: no fees for opening, debit card, ATMs and internet transfers and gives 3% cashback on shopping in grocery shops, supermarkets and petrol stations. The "Dobre Konto" campaign achieved a big commercial success with 181 thousand sold accounts. The "Dobre Konto" account together with its debit card received a special award for outstanding achievement in the field of payment cards in this year's "Publi-News Trophée" for Innovative Cards awards.

In business clients segment one of the most important initiatives of the Bank in 2011 was a new offer for MAKRO Cash & Carry Polska customers, prepared as a partnership proposal to meet the needs of entrepreneurs shopping in MAKRO stores. The proposal covers a broad spectrum of products both for business owners as well as their staff: cards (debit and credit), bank accounts, various types of loans and leasing. A key element of the joint offer is a co-branded MAKRO Millennium MasterCard card, which combines the functionality of a payment card with an entrance card to MAKRO stores. The cooperation was started in June 2011.

According to Group's current strategy, not only growth of business but also high quality of services provided to customers was one of the most important elements for the previous year. Bank Millennium launched a dedicated Quality Project with a goal to improve customers satisfaction with service delivered and to become a market leader in customer service standards. The Project covers all areas of activity, including branches, call center, internet and headquarter. One of the initiatives already implemented within the framework of the Project was a very comprehensive Mystery Shopper program. This effort allowed to prepare adequate actions aimed at improvement of service standards, including preparation of detailed manuals and procedures and followed by intensive trainings program, in which more than 70% (or 4,5 thousand) employees of the Bank participated.

First results of the Project already became visible in 2011. According to *Newsweek* magazine, Bank Millennium took the 3rd place in the most Friendly Banks ranking and was the best Internet Bank. The Bank's success came from the highest number of points awarded in the "Quality of Service" category and one of the highest scores for "Customer Acquisition and Retention" - two key categories in the ranking. In the ranking of *Forbes* magazine for the Best Bank for Companies Bank Millennium got the highest 5 stars score in general ranking and also the highest score in the "Quality and Transparency" sub-ranking. The Bank was also awarded with the 2011 Service Quality Emblem, which is based on a real customers' internet feedback.

2011 year brought for Bank Millennium Group a further improvement of profitability, after successful 2010. This result was driven by further improvement of efficiency, measured by cost-to-income ratio. The ratio dropped to the level below 60%, which means a fulfillment of medium-term target set for 2012.

Improvement in cost efficiency, driven by core income growth (+11% y/y) and strict cost control accompanied by reduction of risk cost, enabled Bank Millennium Group to finish 2011 year with PLN 467 million net profit i.e 43% higher than in the previous year (PLN 326 million net profit in 2010). This result allowed return on equity to exceed two-digit rate (11.1%). This progress of profitability was achieved despite still very difficult environment for financial sector triggered mainly by sovereign debt problems in Europe.

2011 year marked also a lower cost of risk for Bank Millennium, when compared to three previous years 2008-2010. Total amount spent in Group's P&L on credit risk impairment in 2011 was 23% lower than the total impairment charges established in 2010 and much lower than total risk charges done in 2008 and 2009. Lower impairment charges were possible thanks to the improvement of portfolio asset quality as the share of loans with recognized impairment in total loans dropped below 5% and remained one of the lowest among the top 10 Polish banks.

Despite meaningful loan growth (+12.5% y/y), partially inflated by appreciation of FX currencies, both Group and the Bank maintain solid capital adequacy ratios. Consolidated CAR in December was 13.2%, of which core tier 1 ratio remained at a high 11.4% level.

Bank Millennium has a dividend policy of distributing 35% to 50% of net profit as dividend. However, following to the Financial Supervision Commission's (KNF) recommendation, the Management Board of Bank Millennium will propose to retain entire 2011 profit in the equity. This proposal, if approved by AGM, will add 0.9 p.p. to both CAR and Core Tier1 ratios so they would grow to 14.2% and 12.3% respectively as at the end of 2011 year.

In 2012 Bank Millennium targets further improvement of the cost efficiency thanks to an increase of revenues from core operations and tight control of operating costs. Simultaneously, the Bank intends to maintain a stable liquidity (loans-to-deposits ratio at a level close to 100%), a gradual reduction of financing needs in foreign currencies, as well as to keep high capital base.

In terms of business development, the Bank intends to continue effort of acquisition of new customers, while respecting the improvement of relations with customers expressed by cross-selling ratio, the level of quality of services and implementation of innovative products.

To support the implementation of its aspirations for the current and following years, in 2012 Bank Millennium is planning a capital expenditure of PLN 36.6 million in total. A significant part of the capex will be used to further improve IT and security systems that support the Bank's operations. As in the case of the capital outlays made in 2011, which totaled PLN 32.2 million, the investments planned for 2012 will be financed from own funds.

II. FINANCIAL SITUATION OF BANK MILLENNIUM

II.1 Financial results

Bank Millennium net profit for the 2011 financial year grew by 29.4% yearly and amounted to PLN 415.3 million. This high yearly growth of net profit has been achieved thanks to a strong increase of net revenue (by 11.2% y/y), good cost control (limited growth by 3.8% y/y) and stable level of loan loss provisions. Strong growth of income versus relatively stable cost base allowed the Bank to improved its cost efficiency and to bring down the Cost-to-Income ratio to 61%.

The business volumes presented positive trends during 2011 supported by improvement in Polish economy. Bank's total loan portfolio increased by 11.6%, of which loans to companies grew by 12.5% and retail loans by 11.4% (practically driven by the mortgage portfolio). The revival of loans to corporate sector was connected with growing investment activity of the companies resulting from high capacity utilization. Deposits from customers grew by 5.7% y/y, of which deposits of retail sector grew by 10.2% y/y. But 2011 year showed also a high level of competition on deposit market, especially stronger during last quarter of the year, which however was not so severe as observed in 4Q 2008 and 1Q 2009 period.

Bank profit and loss account

Operating Income *(PLN million)*	2011	2010	Change y/y
Net Interest Income	1 022.5	800.4	27.7%
Net Commissions Income	515.7	522.1	-1.2%
CORE INCOME*	**1 538.1**	**1 322.5**	**16.3%**
Other Non-Interest Income **	195.3	236.6	-17.5%
Total Operating Income	**1 733.4**	**1 559.1**	**11.2%**

(*) sum of Net Interest Income and Net Commission Income
(**) includes FX results, Results on Financial Operations and net other operating income and costs

Net Interest Income for 2011 reached PLN 1,022.5 million, which marks a significant growth of 27.7% compared to the value for 2010. The improvement of this income line resulted both from higher volume of business as well as higher spreads on deposits – both in corporate and retail segments.

Net Commissions Income amounted to PLN 515.7 million in 2011, which was slightly below the level of 2010 (PLN 522.1 million). In quarterly terms net commissions were in a negative trend due to adverse conditions on capital markets.

Other non-interest income (including net balance of other operating income and costs) reached PLN 195.3 million during 2011 and was 17.5% lower yearly due to first of all lower trading income by 12% year-on-year (including income on financial instruments at fair value and FX result) and also lower dividends from subsidiaries by 32.9% year-on-year.

Total operating income of the Bank grew in 2011 by 11.2% yearly and reached the amount of PLN 1,733.4 million, that is 11.2% higher than 2010 level. The growth of operating income came mainly from a 16.3% growth of core income (net interest income and net commission income).

Total operating costs reached PLN 1,059.8 million in 2011 and grew only by 3.8% compared to the level of 2010, however the costs were still lower by 4.9% than the 2008 year peak. As total costs grew in 2011 slower than the growth of income, the Bank managed to improve its Cost-to-income ratio to 61.1%, i.e. by 4.4 p.p. compared to the level of 2010.

Operating Costs *(PLN million)*	**2011**	**2010**	**Change y/y**
Personnel Costs	-500.1	-486.2	2.9%
Other administrative Costs*	-559.7	-535.2	4.6%
Total Operating Costs	**-1 059.8**	**-1 021.4**	**3.8%**

(*) including depreciation

Personnel costs grew by 2.9% yearly. Total Bank's employment reached 5,886 persons (in FTE) at the end of December 2011 and grew by 2.3% (or 132 FTE) yearly – entirely in the sales area.

Employment at the Bank Millennium is presented in the table below:

Employment	**31.12.2011**	**31.12.2010**	**Change 2011 / 2010**
Number of employees (in FTEs)	5 886	5 754	2.3%

Other administrative costs (including depreciation) grew by 4.6% yearly. Higher non-personnel costs in 2011 compared to 2010 resulted from higher charges to Banking Guarantee Fund (the charges more than doubled versus 2010) and higher costs denominated in foreign currencies. **Depreciation** in 2011 reached PLN 62.3 million i.e. 13.1% lower than in 2010.

Total net impairment provisions created by the Bank during 2011 amounted to PLN 149.7 million and were on similar level as the amount of PLN 148.4 million created during 2010 (0.9% increase year-on-year) showing stabilisation of cost of risk.

Profit before tax of the Bank in 2011 amounted to PLN 523.9 million and **net profit** amounted to PLN 415.3 million which was 29.4% higher compared to the net profit of 2010.

Pre-tax Income and Net Income (PLN million)	**2011**	**2010**	**Change 2010/2009**
Operating Income	1 733.4	1 559.1	11.2%
Operating Costs*	-1 059.8	-1 021.4	3.8%
Cost/ Income Ratio	61.1%	65.5%	4.4 p.p.
Impairment provisions	-149.7	-148.4	0.9%
Pre-tax Income	**523.9**	**389.3**	**34.6%**
Income tax	-108.6	-68.3	59.0%
Net Income	**415.3**	**321.0**	**29.4%**

* *without impairment provisions for financial and non-financial assets*

II.2. Balance Sheet and Off - Balance Sheet items

Assets

The Bank's assets as at 31 December 2011 totalled PLN 49,613 million and were 7.7% higher compared to the balance at the end of December 2010. Main Bank's assets components and the changes in the values of these components on specified dates are presented in the table below:

ASSETS (PLN million)	**31.12.2011**		**31.12.2010**		**Change 2011/2010**
	Value	**Structure**	**Value**	**Structure**	**(%)**
Cash and operations with the Central Bank	2 017.6	4.1%	2 050.5	4.5%	-1.6%
Loans and advances to banks	2 660.4	5.4%	1 485.8	3.2%	79.1%
Loans and advances to Customers	39 832.1	80.3%	35 678.0	77.5%	11.6%
Receivables from securities bought with sell-back clause	2.2	0.0%	55.1	0.1%	-96.0%
Financial assets valued at fair value through profit and loss and hedging derivatives	859.7	1.7%	1 509.8	3.3%	-43.1%
Investment financial assets*	3 444.9	6.9%	4 820.0	10.5%	-28.5%
Intangible assets and property. plant and equipment **	238.4	0.5%	263.0	0.6%	-9.3%
Other assets	558.1	1.1%	188.0	0.4%	196.9%
Total assets	**49 613.3**	**100.0%**	**46 050.1**	**100.0%**	**7.7%**

* *including investments in associates*
** *excluding fixed assets for sale*

Higher assets level resulted primarily from growth in loans and advances to Clients by PLN 4,154 million, i.e. 11.6%, which was partly an effect of Polish currency depreciation versus main foreign currencies.

Loans and advances to Customers

Loans and advances to Clients constitute a dominant position in the asset structure (80.3%) and as on 31 December 2011 their net value reached PLN 39,832 million and was 11.6% higher compared to the December 2010 level. The growth in loans was, to a high extent, an effect of FX changes, mainly with respect to mortgage loans in CHF.

The table below provides information on the structure of the loans to customers and changes in this portfolio in the course of 2011.

Loans and advances to Customers (million PLN)	**31.12.2011**		**31.12.2010**		**Change 2011/2010**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Loans to households	31 067.9	78.0%	27 884.3	78.2%	3 183.5	11.4%
- mortgage loans	28 283.0	71.0%	24 882.9	69.7%	3 400.1	13.7%
- other loans to households	2 784.9	7.0%	3 001.5	8.4%	-216.6	-7.2%
Loans to business entities	8 764.2	22.0%	7 793.7	21.8%	970.5	12.5%
Net loans and advances to Customers	**39 832.1**	**100.0%**	**35 678.0**	**100.0%**	**4 154.1**	**11.6%**
Impairment write-offs	1 078.6		1 028.8		49.8	4.8%
Gross loans and advances to Customers	**40 910.7**		**36 706.8**		**4 203.9**	**11.5%**

As on 31 December 2011, mortgage loans accounted for 71.0% of the net balance of loans to Customers and constituted the largest component of the Bank's loan portfolio. The value of mortgage loan portfolio, as on 31 December 2011, totalled PLN 28,283 million, which means an increase by 13.7% compared to the level of 31 December 2010. Without the above-mentioned FX factor, the rise would be around 3%. This indicates that the growth in PLN mortgage loans' portfolio clearly more than compensate the amortisation of old FX mortgage loans (mainly in CHF) after the withdrawal of FX mortgage loans from Bank's offer three years ago. The growth of PLN mortgage portfolio (gross) alone in 2011 recorded a very high level of 31%.

Other loans and credits granted to individual customers accounted for 7.0% of the net balance of total loans at the end of 2011. The value of other loans granted to individual customers totalled PLN 2,785 million and decreased by 7.2% yearly due to limitations in the underwriting process imposed by the new supervisory regulations (recommendation T issued by FSA) as well as lower demand for such loans.

As on 31 December 2011, portfolios of loans granted to business entities amounted to PLN 8,764 million, which marks 12.5% increase compared to the balance as at the end of 2010.

The balance of provisions for impairment losses on loans and advances extended to customers increased by PLN 50 million (or 4.8% y/y) driven by additional needs for loan-loss provisions, especially in consumer loans segment (non-mortgage). Additionally, the level of provisions was also impacted by the write-off of PLN 66 million of loans in charge of provisions throughout 2011.

The average basic interest rate of loans granted by the Bank throughout 2011 was 4.45% for retail clients and 6.17% for corporate and public sector clients. The lower average interest rate in loans granted to individuals is partially due to the lower nominal interest rate of loans in foreign currencies (only mortgage loans), which represent a bigger share of the retail loan portfolio.

Investment financial assets

The value of investment financial assets (including investments in associates) equalled PLN 3,445 million at the end of December 2011 and decreased by PLN 1,375 million i.e. 28.5% compared to the balance as on 31 December 2010 mainly due to PLN 1,428 million decrease in the portfolio of debt securities issued by the Polish State Treasury. The decrease resulted from the normal liquidity management needs. Investment financial assets portfolio (including investments in associates) was composed mainly of debt securities issued by the Polish State Treasury and National Bank of Poland (the central bank), having 87.9% share in the portfolio and investment in subsidiaries and associates (6.5% share in the portfolio)

Financial assets valued at fair value through profit and loss and hedging derivatives

Value of the financial assets valued at fair value through profit and loss and hedging derivatives totalled PLN 860 million at the end of December 2011 which signifies a PLN 650 million decrease (i.e. 43.1%) relative to 31 December 2010. This was a result of a PLN 664 million (i.e. 67.7%) decrease of Polish State Treasury debt securities whereas assets from positive valuation of derivatives (designated for trade and hedging) did not change materially during the year. The discussed assets portfolio comprised Polish State Treasury debt securities (bonds and treasury bills) that constituted 36.8% share at the end of 2011 and positive valuation of derivatives designated for trade and hedging that together accounted for 63.2% share. The Bank did not hold any equity instruments in the portfolio.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 2,660 million at the end of December 2011 which means an increase by PLN 1,175 million (i.e. 79.1%) year-on-year. Collateral deposits for hedging transactions were a primary cause of this item's growth, which resulted from changes in valuation of these transactions, mainly as a consequence of exchange rate changes.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment equalled at the end of 2011 year PLN 238 million, which means a decrease of PLN 28 million (or 10%) yearly as a result of standard depreciation.

Liabilities

The value and structure of the Bank's liabilities as at the end of 2011 and 2010 are shown in the table below:

LIABILITIES (PLN million)	31.12.2011		31.12.2010		Change 2011/2010
	Value	Structure	Value	Structure	(%)
Deposits from banks	1 522.4	3.4%	2 084.5	4.9%	-27.0%
Deposits from customers	37 549.8	82.8%	35 525.8	84.1%	5.7%
Liabilities from securities sold with buy-back clause	1 622.3	3.6%	674.2	1.6%	140.6%
Financial liabilities valued at fair value through profit and loss and hedging derivatives	2 872.5	6.3%	2 120.3	5.0%	35.5%
Liabilities from issue of debt securities	394.8	0.9%	384.5	0.9%	2.7%
Provisions	35.0	0.1%	20.5	0.0%	70.6%
Subordinated debt	663.2	1.5%	912.0	2.2%	-27.3%
Other liabilities*	693.0	1.5%	512.2	1.2%	35.3%
Total liabilities	**45 353.1**	**100.0%**	**42 234.0**	**100.0%**	**7.4%**
Total equity	**4 260.2**		**3 816.0**		**11.6%**
Total liabilities and equity	**49 613.3**		**46 050.1**		**7.7%**

* *including tax liabilities*

As at the end of 2011, liabilities accounted for 91.4%, while Bank's equity accounted for 8.6% of the total liabilities and equity.

As on 31 December 2011, the Bank's liabilities amounted to PLN 45,353 million and increased by PLN 3,119 million i.e. 7.4% relative to PLN 42,234 million as on 31 December 2010. The increase resulted, primarily, from a considerable growth in customer deposits (by PLN 2,024 million) as well as the growth of liabilities from sell-buy-back transactions (by PLN 948 million) which both had a positive impact on the Bank's liquidity.

Deposits from Customers

As on 31 December 2011, deposits from Customers constituted the Bank's main liability item accounting for 82.8% of the Bank's total liabilities.

The table below describes the structure of the Banks's liabilities due to its customers and changes of these liabilities in the course of 2011, by Customer types.

Deposits from customers (PLN million)	**31.12.2011**		**31.12.2010**		**Change 2011/2010**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Deposits from individual Customers *	22 906.1	61.0%	20 784.8	58.5%	2 121.3	10.2%
Deposits from companies and public sector	14 643.7	39.0%	14 741.0	41.5%	-97.3	-0.7%
TOTAL	**37 549.8**	**100.0%**	**35 525.8**	**100.0%**	**2 024.0**	**5.7%**

** including deposits in the form of insurance policies*

Deposits from Customers provide the main source of financing of the Bank's activities and include customer funds deposited on current and term deposit accounts. As on 31 December 2011 deposits from customers amounted to PLN 37,550 million and recorded an increase of PLN 2,024 million i.e. 5.7% relative to the balance as on 31 December 2010.

As on 31 December 2011 deposits from individual customers accounted for 61.0% of the total balance of deposits from customers. Their value increased by PLN 2,121.3 million i.e. by 10.2% compared to the balance as on 31 December 2010, which was supported by strong new customers acquisition during 2011.

Deposits from companies and public sector at the end of December 2011 equalled PLN 14,644 million and accounted for 39.0% of Bank's total deposits. Throughout 2011 the value of these deposits decreased slightly (by 0.7%).

The average basic interest rate of deposits of the Bank throughout 2011 was 3.53% for retail clients and 4.05% for corporate and public sector clients.

Deposits from banks

Deposits from banks, as on 31 December 2011, amounted to PLN 1,522 million accounting for 3.4% of the Bank's liabilities. Their value decreased by PLN 562 million (i.e. 27.0%) relative to the balance as on 31 December 2010. As on 31 December 2011, the main item of wholesale medium-term funding received by the Bank was credit in the total amount of EUR 100 million, granted by European Bank for Reconstruction and Development (EBRD) on 30 November 2009.

Liabilities from securities sold with buy-back clause

Under its liquidity management activity, the Bank concludes short-term transactions with buy-back clause both with banks and Customers (mainly financial institutions). The transactions are based on the State Treasury debt securities. As on 31 December 2011, liabilities from securities sold with buy-back clause amounted to PLN 1,622 million increasing by PLN 948 million i.e. 141% relative to the balance as on 31 December 2010. The growth came mainly from transactions with other banks.

Financial liabilities valued at fair value through profit and loss and hedging derivatives

Financial liabilities valued at fair value through profit and loss and hedging derivatives included, primarily, negative valuation of derivatives designated for trading or hedging. The value of this item amounted to, as on 31 December 2011, PLN 2,873 million and increased by PLN 752 million i.e. 35.5% relative to the balance of 31 December 2010 primarily due to a further appreciation of CHF during 2011 year.

Debt securities issued

As on 31 December 2011 liabilities from issue of debt securities amounted to PLN 395 million recording a small increase by 2.7% relative to the balance recorded as on 31 December 2010. This item comprised of liabilities from bonds and bank securities issued by the Bank to be offered to individual customers in connection with savings products.

Subordinated debt

The value of subordinated debt decreased during 2011 year by 27.3% to the level of PLN 663 million as on 31 December 2011 due to the repayment in December 2011 the ten-year subordinated bonds of the total nominal value of EUR 80 million (issued by the Bank in December 2001). Consequently, as at the end of 2011 this item includes only the ten-year subordinated bonds of nominal value of EUR 150 million, issued by the Bank in December 2007.

Equity

During 2011 equity of the Bank grew by 11.6% yearly and amounted to PLN 4,260 million as on 31 December 2011. Net profit generated during the reported period (less dividend paid) was the main reason of the growth of equity and revaluation reserve growth, due to hedge portfolio revaluation, was also an important driver. The growth of equity allowed that capital adequacy ratios of the Bank remain on quite comfortable levels despite negative impact from FX loans revaluation felt especially strong during second half of the year. Total (non-consolidated) CAR stood at the end of 2011 year at 12.4% and Core Tier 1 ratio at 10.7%. Bank Millennium has a dividend policy of distributing 35% to 50% of net profit as dividend. However, following to the recent Financial Supervision Commission's (KNF) recommendation, the

Management Board of Bank Millennium will propose to retain entire 2011 profit in the equity. This proposal has to be approved by AGM.

The main capital ratios during 2011 were the following:

Capital ratios	31.12.2011	31.12.2010	Change 2011/2010
Number of shares (in thous.)	1 213 117	1 213 117	-
Total equity (in PLN m)	4 260.2	3 816.0	11.6%
BVPS	3.51	3.15	11.4%
Capital Adequacy Ratio	12.4%	13.5%	-1.1 p.p.
Core Tier 1 ratio	10.7%	11.6%	- 0.9 p.p.

Contingent liabilities

Distribution of contingent liabilities of the Bank is presented in the table below:

CONTINGENT LIABILITIES (PLN million)	31.12.2011	31.12.2010	Change 2011/2010 (%)
Contingent liabilities granted and received	**10 159.3**	**9 399.5**	**8.1%**
1. Liabilities granted:	8 817.8	8 126.7	8.5%
a) financial	6 691.4	6 242.6	7.2%
b) guarantees	2 126.4	1 884.0	12.9%
2. Liabilities received:	1 341.5	1 272.9	5.4%
a) financial	883.4	794.9	11.1%
b) guarantees	458.1	478.0	-4.2%

In the course of its operations, the Bank executes transactions in effect of which contingent liabilities arise. The main contingent liability items (granted) include: (i) financial commitments mainly commitments to extend loans (including, *inter alia,* not utilised credit card limits, not used overdraft facilities, not utilised investment loan tranches) and (ii) guarantee type commitments including mainly guarantees and letters of credit issued by the Bank (providing security for performance, by the Bank's customers, of their commitments relative to third parties). Contingent liabilities granted cause that the Bank is exposed to various risk types including credit risk. The Bank creates provisions against irrevocable risk based contingent liabilities, booked in the item „Provisions" in the liabilities side of the Balance Sheet.

As on 31 December 2011, the total value of contingent liabilities of the Bank amounted to PLN 10,159 million, including commitments granted by the Bank: PLN 8,818 million. Increase in financial and guarantee commitments granted by the Bank, respectively by PLN 449 million (i.e. 7.2%) and by PLN 242 million (i.e. 12.9%) relative to the balance of 31 December 2010, resulted mainly from increase in the number and value of commitments to extend loans and increase in number and value of guarantees issued by the Bank in effect of increased activity on the part of Bank's Clients during 2011.

II.3. Market indicators and rating

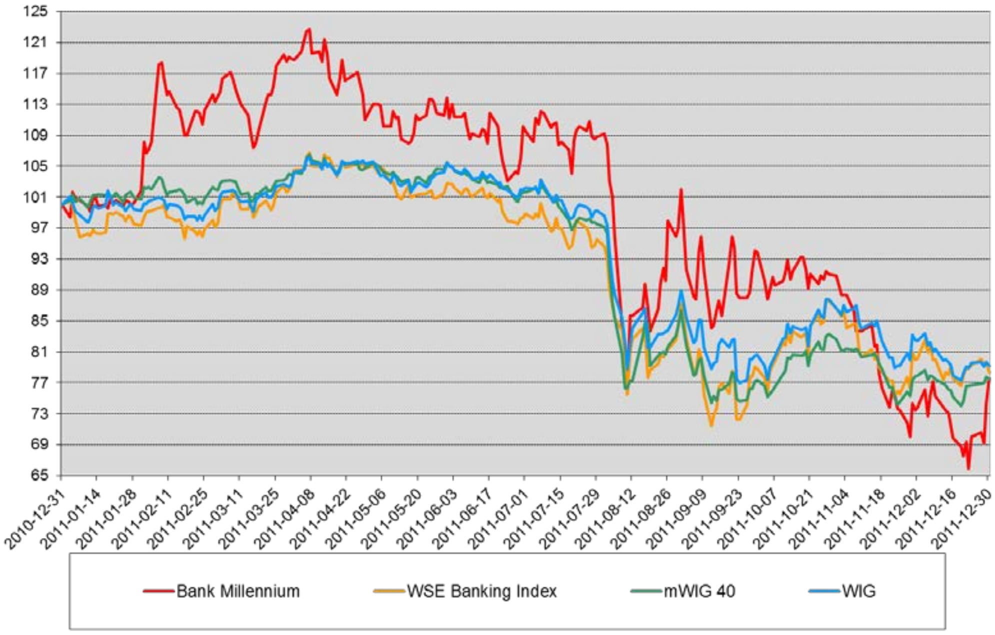
The year 2011 brought high global stock market volatility with strong negative trend during the second half of the year, which was also visible on the Warsaw Stock Exchange. WIG index fell 20.8%, the WIG Banks sector index was down 21.7% and mWIG40 index, which comprises the shares of Bank Millennium, dropped 22.5% during 2011 year. In the same period Bank Millennium performed in line with the market and decreased by 22.4%.

Market indicators	30.12.2011	31.12.2010	Change 2011/2010
Price of Bank Millennium shares (PLN)	3.80	4.90	-22.4%
Daily turnover – yearly avg (PLN ths)*	5 634.5	4 259.5*	+32.3%
market capitalisation (PLN million)	4 610	5 944	-22.4%
WIG – main index	37 595.4	47 489.9	-20.8%
WIG Banks	5 421.0	6 921.3	-21.7%
mWIG 40	2 173.9	2 805.3	-22.5%

** Starting from the first session in 2011, the rules of calculation and presentation of the trading value of financial instruments listed on the Warsaw Stock Exchange was changed. Under the new rules value of turnover is single counted as a sum of transactions (so far it was sum of sell and buy). In order to maintain comparability of the current data with historical data, Bank Millennium converts historical data in line with recommendation of WSE.*

Evolution of Bank Millennium share price versus main WSE indices

(percentage changes vs. 31 December 2010)



During 2011 year, ratings of Bank Millennium assigned by Moody's and Fitch agencies were under pressure coming from downgrade actions towards ratings of the Bank's strategic shareholder – Portuguese banking BCP Group.

In April 2011, after downgrading Portugal and then BCP Group, Fitch Agency downgraded on 11 April 2011 Bank's long-term Issuer Default Rating (IDR) from 'BBB' to 'BBB-' with stable outlook. At the same time support rating was downgraded from '2' to '3' and the national long-term rating from 'A(pol)' to 'A-(pol)' (also stable outlook). The Bank's Individual Rating remained unchanged at 'C/D' level.

Similarly, Moody's Investors Service, after downgrading Portugal and BCP Group (in March and April), downgraded on 12 April 2011 the Bank's long-term domestic and foreign deposit ratings from 'Baa2' to 'Baa3' with a negative outlook. However, the Bank's Financial Strength Rating remained unchanged and was affirmed at 'D' with a stable outlook. The short-term rating also remained unchanged at 'P-3' as well.

Stable outlook on stand-alone ratings of Bank Millennium given by both agencies, coupled with stable outlook and ratings of the Polish State and entire banking sector, allowed Bank Millennium to keep its ratings till the end of the year, despite several further de-ratings of the Parent (done in July, October and November).

The table below presents the ratings of Bank Millennium as on 31 December 2011:

Type of rating	**FITCH**	**MOODY'S**
Long-term deposit rating/IDR	BBB- (stable outlook)	Baa3 (negative outlook)
National Long-term IDR	A-(pol) (stable outlook)	-
Short-term deposit rating	F-3	Prime-3
Individual rating * / financial strength	C/D (no outlook)	D (stable outlook)
Support	3	

** In 2012 Individual rating (Fitch) was replaced by Viability rating; at "bbb-" for Bank Millennium*

III. BUSINESS ACTIVITY OF BANK MILLENNIUM

Bank Millennium offers universal financial products and services addressing its offer to both individual and corporate Clients. The broad offer of the Bank is supplemented by other services offered by the Group's companies: Millennium Leasing (leasing), Millennium TFI (mutual funds) and Millennium Dom Maklerski (brokerage services).

The Bank renders its services by way of a network of 447 outlets located in biggest cities in Poland, Internet banking (Millenet), telephone banking and a network of multi-function ATMs. This way the Bank can provide its services round-the-clock, 7 days a week. According to data as on 31 December 2011 Bank Millennium provided services to 1,164 thous. active retail Clients and nearly 9.5 thous. corporate Clients.

III.1. Retail Banking

Bank Millennium is one of the leading retail banks in Poland operating one of the largest client service networks. The Bank Millennium Group's universal product and service offer includes primarily personal accounts, debit and credit cards, overdraft limits, cash and mortgage loans, savings accounts, term deposits, investment funds, brokerage services, structured products and insurance products.

Within the Retail Banking area, Clients are serviced by way of four specialist business lines: individual Clients, Prestige, Private Banking and Business. As on 31 December 2011, the Bank had nearly 1.2 million active Clients including 27 thousand Prestige Clients, nearly 1 thousand Private Banking Clients and 61 thousand Clients in the Micro-business segment. The strong position of the Bank on the Polish market is a result of long-time work and experience, strong reputation and effective implementation of strategic objectives adopted for the years 2010-2012. One of the Bank's priorities is to improve service quality and increase Customer satisfaction. The service quality improvement programme generated measurable effects. The Bank obtained a series of prestigious awards for outstanding achievements in this area: the Best Bank for Companies, according to „Forbes" monthly, one of the three most friendly banks according to „Newsweek" (the Bank was ranked top in „service quality" category), as well as the Service Quality Crest 2011 (awarded by portal jakoscobslugi.pl).

The year 2011 was favourable in terms of development of long-term business growth foundations – the Bank managed to open, during the period, more than 280 thousand new current accounts. This confirms proper implementation of plans relative to retail banking development aimed at improvement of the share in the product and service market as well as to become the bank of the first choice for retail Clients.

In 2011, the Bank expanded, successfully, its offer addressed to the most affluent Clients providing them with a special product and service offer within the Private Banking line and including individualised and advisory services designed for Clients of this segment. The Bank also entered into cooperation with MAKRO

Cash and Carry, thereby providing Clients of this network with access to a broad range of specialist financial products and services offered by the Bank both in Customer Service Points located in shopping halls as well as in any Bank Millennium branch.

In response to the Clients' needs and growing expectations, the Bank consistently developed and modernised its remote distribution and bank product support channels including, in particular, Internet, mobile and telephone banking. Pursuing cross selling opportunities via the branch network and telemarketing also had significant impact.

Total operating income in retail segment amounted to PLN 1,532.5 million in 2011 which signifies an increase of 14% in comparison to 2010 income.

New Clients and changes in the Bank's offer

In February 2011, Bank Millennium extended its product offer for retail Clients by adding the new „Dobre Konto" current account. The account holders receive a refund of 3% of the value of expenses made with use of a card issued to this account for purchases made in supermarkets, food stores and fuel stations throughout Poland. To get the 3% refund of expenses made with the card issued to the account and not to pay any fees for account maintenance, debit card and withdrawals from all ATMs in Poland, it is sufficient for the Client to ensure monthly inflows to the account of, at least,1,000 PLN and to make at least one payment with this card once a month. Irrespective of whether these conditions are met in a given month or not, Internet transfers from the account are free of charge. The account has an additional advantage i.e. the option to use interest-free overdraft limit on any seven days in an accounting month.

The new account concept was developed on the basis of market analysis and survey of preferences of the Polish population regarding personal accounts. Hence, „Dobre Konto" is an optimum product from the point of view of expectations of Clients actively using personal accounts. Practical experience confirmed market research results. At the moment of launching „Dobre Konto" offer, the Bank planned to open, in total, 200,000 new accounts by the end of 2011. During the period January – December 2011, the Bank exceeded the plan by opening 280 thous. new accounts including 181 thous. „Dobre Konto" accounts. The Bank expects the product to trigger further growth in 2012.

Furthermore, „Dobre Konto" together with its card received the Jury Special Award for outstanding achievements in the area of payment cards in the competition „Publi-News Trophees for Innovative Cards" for 2011. The Jury not only underscored account advantages but also its impact upon the market and sales dynamics as well as success of a large retail bank in attracting Clients by way of offering an attractive debit card. The special award was granted for the first time, since according to the Jury standard categories such as loyalty or innovation were not sufficient to judge the product. The „Publi-News Trophees for Innovative Cards" competition, organised since 2006, is a major event of this type on the European payment card market and one of the most important events on the global card market.

Deposits and other retail Client funds

In 2011, the Bank Millennium commercial policy in the area of savings products focused, primarily, on improving Bank's margins and increasing volumes at appropriate prices. Within individual marketing cycles, Bank offered its Clients with a broad mix of savings products to meet their saving needs.

In Q3 of 2011, the Bank introduced a new „Lokata Gorąca" deposit and the „Lokata Morze Zysków" deposit with daily interest capitalisation for new funds. Attractive interest rates and maturities made these deposits very popular among the Clients. The deposits sales reached in total the level of more than 1 billion PLN.

In Q4 the Bank returned to the concept of promoting new funds on Savings Account with increased interest rate. The concept, already proven to be effective in the past, helped the Bank to achieve planned result also at the end of 2011. Within promotion activities, the Bank offered interest rates at 7% for new funds paid into the Bank up to the amount of 100,000 PLN.

Regular offering of investment deposits with full principal guarantee, introduced in 2010, continued also throughout 2011. Clients were given the opportunity to diversify their saving portfolios and generate earnings greater than average under one of 24 deposit subscriptions. In 2011, Clients decided to deposit more than 1.2 billion PLN in these products. More than half of subscriptions maturing in 2011 ended with success.

Payment cards

The Bank provides its Clients with a broad range of payment cards: debit cards, credit cards and charge cards issued under three payment systems – Visa, MasterCard and American Express. In the credit card market, the Bank is present in the following card segments: classic, gold, platinum, partner and multiple partner as well as in the Private Banking segment.

In 2011, the Bank expanded its card offer by adding Private Banking segment cards: the market first debit embossed card Millennium World Debit MasterCard and credit card Millennium MasterCard World Signia™ - the best credit card according to „Forbes" monthly (November 2011). Both cards provide their users with comprehensive functionality and safety by offering a series of insurance packages with guaranteed high insurance amounts in cases of costs of medical treatment abroad and costs connected with accidents in foreign travel. Benefits also apply to family members even if they travel without the card holder. Together with credit card Millennium MasterCard World Signia Clients receive a free of charge Priority Pass™ card providing access to VIP waiting rooms at airports irrespective of type or class of a flight ticket, also covering any number of accompanying persons.

Furthermore, card holders have access to the World MasterCard Reward programme, World Signia partnership programme as well as Assistance and Concierge packages. The former is a transparent system allowing holders to collect points which can be exchanged for flight tickets in any airline or hotel bookings. The latter offers discounts in well-known hotels, car and aircraft rental companies. Concierge services offered by an international company White Concierge located in London meet even the most unique needs. The Assistance Package, including medical and legal aid and assistance while in travel, facilitates resolution of unexpected situations happening while in home country and abroad.

The Millennium Visa Dobre Konto debit card was another a new product of the year 2011. The card guarantees a refund of 3% of the value of expenses made with use of the card issued to the account, free withdrawals from all ATMs in the country and cost free use of the card. It is enough for the Client to ensure monthly inflows to the account not less than 1000 PLN and at least one payment to be made with the card issued to the account. Card Millennium Visa Dobre Konto is the first proximity card with the Visa payWave functionality in the Bank.

Debit and credit cards issued in collaboration with MAKRO shopping network constituted another card product introduced in 2011. These cards are addressed towards both individual and business Clients and facilitate payments in MAKRO shopping halls as well as any sales or service point in Poland and worldwide, accepting payments under MasterCard system.

As at the end of 2011, Bank Millennium had in its portfolio the total of more than 1.5 million payment cards including nearly 0.5 million credit cards.

Cash loans

Cash loans account for an important product within the product mix offered by Bank Millennium to individual Clients. In 2011, Bank Millennium actively offered cash loans addressing them primarily to existing Bank Clients. Cash loans are offered with optional, additional insurance package. The Bank also offers, to Clients remaining current in their cash loan servicing, an option to increase the loan up to its original amount or higher than the original loan amount. In 2011, the Bank promoted the „Urgent Loan" product. The offer was supported by promotional campaigns such as the August campaign under the name of „Witaj Szkoło !" (Hello School !). All Clients meeting the promotion campaign conditions received a reward of 300 PLN paid into their bank accounts.

Cash loans are offered via all sales channels: branches, electronic banking (Millenet) and telemarketing. The telemarketing campaign involved active offering, by phone, of the „Urgent Loan" to existing Bank Clients.
The Bank Millennium net cash loan portfolio, as at the end of 2011, amounted to ca. 2 billion PLN. In 2012, the Bank intends to actively sell cash loans while maintaining necessary balance between its business objectives and the quality of the loan portfolio.

Mortgage Banking

The Bank Millennium mortgage banking offer is modern, comprehensive and meets various needs of individual Clients: from their housing plans (Mortgage Loan, preferential mortgage loan „Rodzina na swoim"/Family at Home/), through repayment of liabilities due to other financial institutions (Consolidation Loan) or purchase of a unit for purpose of rental or conducting one's own business operation (Business Mortgage Loan), to financing any other purposes (Home Equity Loan).

After the period of pursuing prudential and conservative lending policy in mortgages resulting from turbulences on international financial market of 2008/2009, in 2011 we observed growing interest in mortgage loans facilitating Bank Millennium growth in the mortgage banking area. In 2011, the Bank improved its sales result, relative to 2010: the value of mortgage loan disbursements amounted to 2,125 million PLN and was higher, by 18%, than in 2010. Similar growth in sales (17%) the Bank recorded in the number of mortgage loan agreements signed – Millennium mortgage banking Clients signed agreements with the Bank to the total amount of 2,191 million PLN. At the end of 2011, the mortgage loan portfolio of Bank Millennium reached the value of 28.3 billion PLN (portfolio value as at the end of 2010 amounted to 24.9 billion PLN) giving the Bank the market share of 9.0%.

In 2011 the Bank continued its initiatives towards development of its relations with existing Clients. The Bank provided active users of other banking products with opportunity to obtain better conditions of a mortgage loan (cross-selling). Besides acquiring new Clients, the key objective of the initiative was to establish close and sustainable relations with receivers of services provided by the Bank by way of multiplying the number of links between the Client and the Bank and increasing the average number of Millennium products in Client portfolios. According to our financial intermediaries, this solution is perceived by our Clients as very attractive facilitating development of long-term relations with the Bank.

Among important initiatives, it is worth to mention also the option to pay in instalments the premium from high LTV insurance. The instalment option was available to Clients having mortgage loans indexed to CHF who would have, in line with effective principles, their high LTV insurance continued for the consecutive period of 3 years.

In 2012, the Bank will strive to strengthen its PLN mortgage lending market position. Main actions will be linked with streamlining of the lending process, preparation of a competitive credit offer, adjusted to real market conditions, and continuation of cooperation with financial intermediaries and advisors to make Millennium mortgage loan one of the most frequently recommended sources of financing of housing needs by brokers.

Products for individual, affluent Clients - Prestige

Prestige is the Bank Millennium offer addressing the needs of individual Clients of high financial status having assets from 100 thous. to 1 million PLN in value, expecting high service quality and financial product offer prepared to meet their individual needs.

The Personal Account Prestige is a combination of advanced solutions and tools needed to effectively manage personal finances, providing opportunity to save, obtain additional funds and manage capital and providing holder with access to offers presented by companies collaborating with Bank Millennium. The Prestige account offers a broad range of products and services designed to facilitate current management of financial assets: savings and checking accounts in PLN and foreign currencies, savings account, term deposits, debit and credit cards. In addition, the Bank offers a broad range of investment as well as investment and insurance products including Polish and foreign investment funds, Investment Programme Prestige (available in PLN, EUR and USD), Prestige Guarantee Policy and structured products.

In 2011 Bank Millennium issued 14 series of banking securities with 100% capital guarantee (all in PLN), with diversified tenors, underlying assets and disbursement formulas. Clients were extremely interested in subscriptions for banking securities based on valuation of precious metals: gold and platinum. Hence, either security was subscribed for twice. Additionally under the non-public offering (private placement) Bank issued one series of structured bond with 100% capital guarantee in PLN connected with quotation of indices of global exchanges. In 2011 the Bank continued selling investment products combined with bank deposit. Prestige Clients were provided with option to use „SuperDuet" and „MegaDuet" i.e. products combining term deposit with a selected investment product included in the Prestige offer.

In November 2011, the Bank expanded its insurance and investment product offer by adding another product i.e. „Multi-currency Investment Programme („Wielowalutowy Program Inwestycyjny"). The product involves life and health insurance with option to invest funds in both domestic and foreign insurance capital funds denominated in PLN, EUR and USD, diversified in terms of potential earnings, level of risk and tenor and model funds with three risk classes. Specific features of the Programme include opportunity to build a fund portfolio in above mentioned currencies, option to make simultaneous payments and withdrawals in those currencies, transfer funds between funds in currencies available under the Programme. Funds available in the Programme include funds managed by the following domestic investment fund associations and foreign investment companies: BlackRock, BZ WBK TFI, Franklin Templeton, HSBC, ING TFI, Investors TFI, Legg Mason TFI, Millennium TFI, PZU TFI, Quercus TFI, Schroders, Skarbiec TFI, Union Investment TFI.

Client financing needs were met by offering cash loans, credit cards, mortgage loans and asset based loans. In the area of credit products, sales efforts focused, primarily, on cash loans, credit cards and personal account overdraft limits.

In the area of communication, the Bank focused mainly on organisation of investment seminars for existing and potential Prestige Clients. During 2011 year, the total of 104 investment seminars were held with 3,769

Clients attending. Seminars, that attracted major interest, proved to be an effective means to provide information about market changes and Prestige products.

As on 31 December 2011, Bank Millennium had 27 thousand active Prestige Clients.

Private Banking – the new segment

On 1 September 2011, Bank Millennium introduced Private banking into its offer thus enriching service offer addressed towards the most affluent individual Clients. Innovative products, comprehensive service and individualised financial solutions are available to Clients having assets of above 1 million PLN in value. In Bank Millennium, this group consists of nearly 1000 Clients. Clients having assets from 100,000 PLN to 1 million PLN are continuously serviced within the Prestige offer.

This segment was separated in logical consequence of extensive knowledge of the Bank's Clients and growing range of services offered to them. Direction of changes was set out also by regular affluent Client satisfaction surveys helping the Bank better define needs and expectations of Clients in this category. For the Private Banking Clients the Bank prepared an extensive product offer including attractive personal account, savings products, investment products, brokerage services, credit products including credit card Millennium MasterCard® World Signia™, ranked the first in the list of best cards prepared by „Forbes" magazine in December 2011.

Financial status has an important impact upon Client expectations and needs, not only financial. Private Banking Clients expect the Bank to provide them with much more unique offer and service. Therefore, in Private banking, the Bank introduced new solutions in four key areas:

Advisors – individual approach and service luxury

Level of satisfaction amongst the most affluent Clients remains high at 86%. Clients with assets valued at above 500 thous. PLN underscore qualification of a bank advisor cooperating with them and product offer as the most important items in their cooperation with the Bank.
Services are rendered to Bank Millennium Private Banking Clients, in 9 cities in Poland, by a group of advisors having the highest levels of experience and competence. Private Banking advisors are persons with at least several years of service in this market segment, capable of making independent decisions, having good skills in building and maintaining relations and necessary knowledge of financial markets.

Private Banking Clients have an option to use services rendered by advisors in locations of their convenience and place orders via these advisors by phone. The Bank ensures total service confidentiality. Access to information on Client accounts is strictly protected and restricted i.e. open, practically, solely to Private Banking Advisors.

New payment cards – privileges in travel and every day convenience

The card offer addressed to the most affluent Clients of Bank Millennium was expanded by adding of the market first embossed debit card Millennium World Debit MasterCard® and credit card Millennium MasterCard® World Signia™. Both cards offer a range of insurance packages with high, guaranteed insurance amounts – including, *inter alia,* up to 1 million EUR in case of costs of medical treatment abroad and 500 thous. EUR to cover costs connected with accidents during foreign travel. Benefits also cover family members – even if they travel without the card holder. Protection is not conditional upon the card use – activation is automatic.

Together with credit card, Clients are given, free of charge, the Priority Pass™ card ensuring access to more than 600 luxurious VIP lounges at 325 airports in more than 100 countries irrespective of a type or class of the flight ticket, also for any number of accompanying persons.

Furthermore, card holders are granted access to the World MasterCard Reward Programme, a partnership programme of World Signia and the Assistance and Concierge packages. The former is a transparent system of collecting points to be later converted to flight tickets from any airline or hotel bookings. The latter is a programme providing discounts in major, well known hotels as well as car and aircraft rental companies. Concierge services are offered by an international company Concierge with head office in London. The Assistance package, including medical, legal and travel assistance, helps resolve unexpected situations while travelling both in country and abroad.

Investment solutions

The Private Banking Clients have access to new investment solutions. These are, *inter alia,* closed investment funds and additional products structured, individually, to meet specific Client's needs. Moreover, Clients can make use of a realm of different investment and insurance solutions – more than 100 Polish and foreign investment funds denominated in EUR/USD/PLN and offered by respectable partners such as Amplico TFI, BlackRock, BZ WBK TFI, Franklin Templeton, HSBC, Investors TFI, ING TFI, JPMorgan, Legg Mason TFI, Millennium TFI, PZU TFI, Quercus TFI, Robeco, Schroders, Skarbiec TFI, Union Investment TFI. The offer also includes structured products, brokerage services, life insurance policies as well as broad range of deposits, savings and pension accounts bearing attractive interest rates.

Additional services

Innovative solution available to the Private Banking Clients includes a comprehensive tax advisory service offered in cooperation with Deloitte Doradztwo Podatkowe. Moreover, Clients interested in investing in the art market will have, at their disposal, specialist DESA UNICUM advisors, who can help in selection and finding work of arts or ancient jewellery and in purchasing these items at auctions not only in Poland.

Micro-business segment in Retail Area

Micro-business segment of the Bank Millennium Retail area gathers, in its portfolio, business entities generating annual revenues of up to PLN 5 million. Micro-business market in Poland is rapidly growing and is considered to have the greatest future perspectives, deserving special attention. Bank Millennium, appreciating potential and growing awareness of needs of this group of Clients, has been systematically developing its offer addressed to this segment thus pursuing development directions specified earlier.

Offer and its development

At present, Bank Millennium offers its Business Segment Clients a broad range of products and services including, *inter alia,* as follows:

- current accounts in PLN and in four foreign currencies (EUR, USD, GBP, CHF);
- credit products including renewable current account overdraft, cash loan, investment loan;
- leasing;
- trade finance products (factoring, letter of credit, guarantees, guarantee, L/C and surety line);
- debit, credit and charge cards;
- MilleZdrowie insurance;
- a range of services connected with account servicing such as: telephone service, Internet service, closed payments, car collection and payment terminals.

For the Business Segment, year 2011 was marked, primarily, by establishment of cooperation with „MAKRO Cash and Carry" resulting in opening of 30 Customer Service Points in the country wide network of „MAKRO Cash and Carry" shopping halls. This way, MAKRO clients are provided with a unique offer of services rendered in Customer Service Points or in any Bank Millennium branch. Within the framework of the special MAKRO offer, Client is granted with opportunity to apply for opening current account, issue of partnership debit card or credit card with dual functionality: payment card within the MasterCard system and entry card allowing to shop in MAKRO shops. Within a fast track granting procedure i.e. on the basis of history of cooperation with MAKRO, the Bank offers current account overdrafts, cash loans and investment loans to MAKRO clients who are self-employed business operators.

Moreover, in 2011 the Bank entered into a cooperation agreement with First Data Polska S.A. to provide the Bank with opportunity to offer its Business Clients an option to use payment terminals. Introduction of an opportunity for Business Clients of the Bank to enter MilleZdrowie Insurance scheme is also worth mentioning.

Business results

As at the end of December 2011, the Business Segment portfolio included in total 61 thous. Clients marking growth by 6.0% during the year. The number of accounts serviced within the Business segment reached, at the end of 2011, 133.4 thous. i.e. the number increased by 16.3 % relative to the preceding year. As at the end of December 2011, the balance of Client funds in this segment amounted to 2,542 million PLN (against 2,346 million PLN at the end of 2010).

Awards

Bank Millennium was appreciated again for its modern and competitive offer by prestigious „Forbes" magazine, which in its annual ranking, awarded Bank Millennium with the title of Best Bank for Companies in 2011.

III.2. Corporate banking

In 2011, development of Corporate Banking was deemed to be one of the Bank's strategic objectives. In this area the Bank pursues its most important objective i.e. developing sustainable relationships with Clients and consistently adjusts its offer to their current and long-term needs.
In 2011, striving to achieve its objectives, the Bank systematically expanded its product offer addressed to corporate Clients and developed its network of professional advisors providing services to Clients of this segment. Corporate Banking activity focuses on provision of comprehensive and professional service to enterprises generating annual sales revenue of more than 5 million PLN. As on 31 December 2011, the Bank provided its services to nearly 9.5 thous. companies. The result on banking activity in the Corporate Banking area in 2011 amounted to 425 million PLN recording an increase relative to 2010 with the result at 385 million PLN, by 10%.

Distribution channels

One of the key channels helping the Bank to build sustainable and partner's relationships with Clients is a direct contact with a specialised Relationship Manager (RM). This is why services to Corporate Banking Clients are provided via a broad sales network of a countrywide coverage. Clients, as on 31 December 2011, were provided with access to 134 RMs and 76 Consultants operating from 33 Corporate Centres. Furthermore, Corporate Clients were able to use assistance provided by 52 Product Advisors i.e. specialists in areas such as leasing, factoring, trade finance, treasury transactions and transactional banking.
Besides direct contacts with Bank employees, Clients can use the following Electronic banking systems:

- Internet banking system Millenet for Enterprises,
- assistance provided by telephone Telemillennium,

The above systems provide Clients permanent, fast and safe access to information on current account balances as well as transaction functionalities. Reducing costs of banking services is an additional advantage of the use of electronic systems. Besides contacts with highly specialised RM, Corporate Banking Clients can make use of services provided, on a current basis, by countrywide Branch network of 447 Bank outlets.

Credit products

The primary objective of the credit offer prepared by the Bank is to meet comprehensive financial needs of the Clients including financing of ongoing operations and financing of investments.

Total volume of loans granted to Corporate Clients and to public sector amounted to, at the end of 2011, 10,264 million PLN (on Group's level) and was higher by 16% relative to the end of 2010 result when credit portfolio amounted to 8,854 million PLN. Excluding leasing, with balance remaining during the last year practically unchanged, loans to companies increased by 25% per annum.

The credit offer is based upon renewable and working capital loans providing current financing to companies as well as investment loans supporting their long-term development. During the last year, the Bank developed THE FAST FINANCING AREA (FFA), implemented in December 2010 with a unique feature allowing Clients to obtain financing without collateral with time of waiting for credit decision of only 1 day. Within FFA, Clients may obtain simple short-term credits and bid security guarantees. Maximum amount of financing is 1,2 million PLN.

In order to meet the needs of the Clients half way the Bank's credit offer designed for the Corporate banking Clients was, in 2011, expanded by adding the following new products:

1) Credit or Leasing „EKO ENERGIA" granted under the Polish Sustainable Energy Financing Facility– PolSEFF. PolSEFF is a new European Bank for Reconstruction and Development (EBRD) initiative addressed to SME segment entrepreneurs operating their businesses within the territory of the Republic of Poland. The Programme provides them with opportunity to apply for preferential financing of energy efficiency projects carried out in their enterprises. The Programme beneficiaries may implement their projects financed in the form of:

- investment loan: „EKO ENERGIA" Loan
- leasing: „EKO ENERGIA" Leasing

The Programme covers investments such as, *inter alia*: replacement of machines by energy efficient ones, conversion to renewable energy sources, thermal insulation of production halls, buildings, warehouses (real property thermal modernisation). Under the Programme, entrepreneurs financing their energy saving projects by a loan or leasing arrangement obtain subsidy at 10% or 15% and, in addition, could count of the following additional benefits:

- annual savings resulting from energy consumption lower by not less than 20%

- free professional technical assistance and consultation support at every stage of project implementation
- broad range of verified equipment and technologies offering improvement of energy efficiency, as available on the list LEME (list of eligible machines and equipment)
- Improving competitive advantage due to efficiency increase,

2) Loans hedging against increase of interest rates.

In 2011, considering forecasted cycle of interest rate increases, Bank Millennium introduced new credit functionalities to both new and already offered credit products. The objective of the new functionalities is to help Clients hedge their positions against increase of reference rates applicable to credit products.

a) Fixed rate loans

The product was prepared to support Clients who wish to be independent from reference rate changes by way of defining a fixed value of interest throughout the lending period. The product is granted in the form of working capital loan, mortgage backed loans and investment loans. Within this type of financing, the Bank undertakes to accrue interest in accordance with a fixed rate as agreed upon between the Bank and the Client.

b) Loan with protection against interest rate increase

prepared for Clients seeking to hedge their positions against excessive increase of reference rate applicable to credit products. The solution provides a benefit in form of an opportunity to apply the instrument to both new and already granted loans; in case of new loans hedging, costs may be covered by increasing the loan amount.

3) Multi-product line.

Product introduced to the Bank's offer in 2010 and further developed throughout 2011 providing the response to the needs of Clients looking for flexible and efficient credit limit management solutions. The Multi-product line offers financing of current activities of a company by way of many instruments under a single agreement and within a single, global limit, including, as follows:

- overdraft facility,
- revolving loan,
- guarantee, surety and L/C line,
- charge card limits.

Furthermore, the line provides an opportunity to align current financing structure to current needs as well as helps reducing total debt service costs.

Main advantages of the product include:

- a single application and a single agreement governing all products within the line,
- granting the Client with opportunity to change, in a flexible manner, the global limit utilisation structure without the need to sign an Annex to the agreement,
- provision of a single collateral package to secure all products,

- option to utilise funds under the global limit in various currencies,
- option to renew financing thereby offering the re-use of the available limit after a portion of debt has been repaid
- improving Client's credibility in the eyes of trade partners by granting guarantees

4) Technological loan.
The product was modified in 2011 following the amendment to the rules of technological loan. The changes made the product increasingly popular among the Clients and generated more benefits to beneficiaries. Bank Millennium is one of more than ten banks in Poland granting technological loans. In 2011, Bank Millennium participated in all recruitment processes (June and December) actively helping its Clients in application process.

Factoring

Factoring in Bank Millennium is an attractive tool helping to improve company financial liquidity and safety of transactions involving sale of products or services by the Client. Bank Millennium factoring products are structured on the basis of transparent principles and individual approach to Client's needs. To majority of the Bank's factoring transactions, Client may designate selected domestic or foreign receivers while factoring accounts are settled both in Polish and foreign currencies. Conditional upon chosen solution, the Bank administers and funds all or selected Client's receivables.

Bank also offers solutions involving funding of receivables after their maturity dates (costs of such financing are covered by counterparties), as well as repayment of trade liabilities of the Client thereby facilitating Clients to negotiate discounts with their suppliers or better cooperation conditions. Bank Millennium systematically improves its factoring products and expands its offer by adding new solutions.
At present, the Bank offers, as follows:

- Factoring with recourse,
- Factoring without recourse,
- Factoring without recourse with insurance,
- Reverse factoring (discount and maturity factoring and transactions combining both solutions),
- Mille-Link Factoring (maturity factoring),
- Self-government factoring; and
- Payment collection.

Striving to meet Clients' needs in the area of factoring services, in 2010 the Bank introduced an option to finance receivables on the basis of documents delivered to the Bank via Internet application WEB Faktor, providing electronic data exchange between the Bank and the Client. In the first place, the change applied to factoring with recourse while in 2011 the Bank continued to implement the functionality in other factoring products including, in particular, reverse factoring.

In 2011, Bank Millennium generated factoring turnover in the amount of 5.325 million PLN and increased turnover level by 21.5% relative to 2010 (in similar period turnovers of factoring companies associated in the Association of Polish Factors (APF) – an organisation associating Polish factoring institutions – increased by 19.3%).

According to information on 2011 factoring market in Poland as collected by the Association of Polish Factors Bank Millennium, in terms of value of receivables purchased, is ranked 6 among institutions offering factoring service, associated within the APF. Bank Millennium is a member of the Association of Polish Factors since 2010 and was the first bank accepted to Association's membership.

Trade Finance

Bank Millennium has been rendering trade finance services since 1993. The Bank offers Clients a full scope of instruments designed to reduce trade related risks both in domestic and foreign trade. Companies are purchasing raw and other materials and commodities and, subsequently, sell their products at home or abroad. Ensuring proper sources of funding plays key role in the process as well as the need to perform purchase and sale transactions in a safe way.

In order to limit the trading risk, Bank Millennium offers the following products:

- documentary collection,
- documentary L/Cs,
- bank guarantees,
- civil law surety and avals,
- L/C and promissory note discounts,
- bank guarantee, civil law surety and documentary L/C lines,
- multi-product lines,

Within the above listed products, the Bank provides an option to issue bank guarantees, civil law sureties and documentary L/Cs. Besides traditional products referred to above, Bank Millennium also renders services in the area of structured products. Taking advantage of knowledge provided by trade finance specialists, the Clients can use individual advisory services and assistance in selecting appropriate solutions both in terms of costs and minimising commercial transaction risks.

In 2011, the Bank introduced to its offer, as follows:

- fast track execution of bank guarantees and documentary L/Cs issued outside of the product line under the programme „Zlecenie-umowa" (order-agreement). Clients can use the programme whenever offered collateral involves transfer of ownership title to a deposit or transaction is unsecured.

- tender guarantees and relevant guarantee lines granted in Polish currency under the Fast Financing Area.

Average guarantee and L/C exposure volume increased from 2,661 million PLN in December 2010 to 2,838 million PLN in December 2011.

Transactional Banking

Products of Transactional Banking are designed to support companies, capital groups and entities financed by state budget. These products facilitate cash flow and liquidity management and improve operational effectiveness as well as cost reduction.

In 2011, the Bank expanded its offer in the area of domestic market clearing. Today, Millenet offers direct debit with Client friendly module ensuring electronic distribution of authorisations. The Bank's offer has been supplemented by functionalities designed to assist financial intermediaries. Millenet system offers an option of additional identification, in the transfer sender data, of data relating to actual principal (client intermediary). This solution allows transfer receiver to have precise information about transaction principal and can easily identify a given transaction.

The offer also includes payroll account provided to support settlement of company work force wages. This account is linked with the company's (main) current account. Fund transfers i.e. wages send out and booked on the payroll account, are executed using funds available on the current account. In order to maintain employee wage amount information confidential, access to detailed information on payroll account is granted to designated individuals e.g. persons responsible for settling wage accounts in the company. In addition, in 2011 the Bank expanded its liquidity management supporting service by adding a net balance service. The service provides an opportunity to manage total balance of selected company accounts. Transaction from any account supported by the service, whenever the account balance is insufficient, can be executed and charged to total available balance of all accounts supported by the service. The net balance provides for settlement of negative balances up to pre-defined limits, against positive balance amounts at the end of each business day and, optionally, at additionally chosen hours within a business day. Moreover, the service supports consolidation of any surplus generated on accounts in keeping with a designed scheme and at specified times: at the end of business day, at selected hours during the business day or at other times, as agreed upon with the Bank. The net balance service allows companies to optimise fund management and, in consequence, generate higher interest related benefits.

Deposit products

Beside financing the Bank provides its Clients with a comprehensive offer of deposit products. The total volume of funds received from Corporate Clients and public sector amounted, at the end of 2011, to 14,415 million PLN (on Group's level)..

Deposit offer is based upon deposits in PLN and foreign currencies. Depending upon the amount of deposit, Clients may take advantage of attractive, individually negotiated interest rates. Automated deposits and structured investment products including Treasury bills and T-bonds as well as sell-by-back or buy-sell-back transactions are added to the offer.

Electronic Banking

In 2011 the Bank decided to withdraw ESOBIG system from its offer and focused on developing Internet banking system i.e. Millenet for Companies adding many new functionalities and facilities. The new module supporting entry, authorisation and sending payments offers high efficiency and convenience and added a number of significant improvements including, *inter alia,* effective transaction browsing using any chosen criterion. Furthermore, new library of counterparties has been implemented supporting effective data management relative to both domestic and foreign beneficiaries. Direct debit function has also been offered as well as many other functionalities in payment processing area. Projects completed brought fruit in the form of significant increase in the number of transactions processed in the Millenet, from 264 thous. in December 2010 to 512 thous. in December 2011. The Bank was able to increase this number by nearly 94% by transferring a part of its Clients from ESOBIG system, increase in Clients' activity and by enlarging the Client base by adding new Clients. Millenet for Companies development work will continue in 2012 and the system will be developed in line with requirements of the Bank Clients. The Bank planes, in the first place, to make system capacities more flexible in the area of user authorisation configuration and by adding new report generation functionalities.

Marketing activities

In 2011, Corporate Banking area of Bank Millennium carrying out intensive marketing activities to promote its offer. Since mid-March until mid-June 2011, specialist articles and interviews presenting current market trends and state-of-the-art solutions offered by the Bank to its Clients appeared in nationwide press. As in 2010, Bank employees cooperating on a daily basis with units cooperating with Corporate Clients were invited to joint advertising campaign efforts.

In 2011 Bank Millennium, in collaboration with the National Chamber of Commerce and representatives of local government authorities, organised a round of meetings with entrepreneurs under the name of the Regional Business Forum. Meetings were held in 15 voivodship capitals throughout Poland to create a platform for discussion about local business opportunities and barriers, opportunities to support local business development and obtaining funds and techniques of business project financing. The key task of these meetings was to build mutual relationships and foster exchange of experience between entrepreneurs, representatives of local governments and financial sector. The round of meetings was held under honorary patronage of the minister of Economy, the Minister of Regional Development and the World Bank. Overall, meetings were attended by more than 2200 entrepreneurs from all regions of Poland.

The Bank also entered into cooperation with the European Bank for Reconstruction and Development thus creating an opportunity to take advantage of additional funds to finance active promotion of the Bank amongst Polish entrepreneurs. On 26 January 2011, an official launching of the Polish Sustainable Energy Financing Facility Programme (PolSEFF) took place and since March the product is available to Corporate Banking Clients. EBRD invited four financial institutions operating in Poland to participate in PolSEFF. Bank Millennium was the first to offer a finished product to its Clients and provided, at the same time, support to designing documentation and procedures. In the process of active Programme promotion, in the first half of the year, a round of free-of-charge seminars for entrepreneurs was organised to present details of the Programme itself and practical opportunities offered by the Programme. Seminars were held in 17 Polish cities facilitating discussions with entrepreneurs on challenges created by the need to effectively manage energy costs. Activities fostering „green investments" also constituted initiatives implemented in cooperation with Millennium Leasing, involving joint participation in trade fairs (Poligrafia 2011, ITM Machtool, Plastpol and Toolex 2011).

Within the framework of activities designated to strengthen the Bank's image as a professional institution caring for proper relations with its Clients, at the turn of August and September 2011, a pilot round of 11 „Business Breakfasts" was implemented involving Bank Clients and potential Clients of Corporate Banking. The initiative was assumed to include informal meetings with representatives of companies with Corporate Banking experts presenting available products and solutions as well as provide Clients with an opportunity to present their expectations and needs. Meetings were attended by more than 100 participants.

III.3. Treasury and investment operations

Treasury Products for Clients

Treasury department of Bank Millennium, due to active development of product offer and its financial market operations provides the Bank Clients with access to a broad spectrum of financial instruments used to support business development and hedge against different types of risk inherent in transactions executed by Clients. In 2011 the Treasury department offer included a broad range of financial instruments. Apart from spot FX transactions and deposit products under the offer of derivative products, Corporate Banking Clients can take advantage of FX risk management instruments (*fx forward, fx swap*, options) and interest rate risk management instruments (*FRA, IRS, CIRS*). Interest rate risk hedging products were also used in structuring credit products to eliminate inherent variable interest rate risk.

Year 2011 was marked by expansion of the market transaction platform Millennium Forex Trader, highly prized by our Clients since the very beginning of its operation. At the end of 2011 this innovative system recorded in total 1000 active users. The Forex Trader platform of Bank Millennium was introduced into the Bank's offer at the end of 2009. It is a tool facilitating fast and safe access to financial markets providing Clients with capacity to conclude transactions efficiently without the need to remain in telephone contact with Treasury Department dealers. Business operator can, on his/her own, at any time and place, conclude transactions on FX market in real time at spot rates. The platform helps Clients to minimise service costs by granting access directly to inter-bank market quotations.

Changes in the offer and implementation of new tools helped Bank Millennium to achieve, in 2011, a turnover increase by 20% (relative to 2010) generated by corporate FX transactions.

Custodial services

Bank Millennium S.A., as early as in 1990 and as one of the first banks in Poland, offered custodial services. Custodial services are rendered on the basis of individual permits issued by the securities and Exchange Commission. The Bank is a direct participant in deposit and clearing systems such as National Deposit of securities, National Register of Securities managed by NBP or International Clearing House Euroclear with head office in Brussels. Bank Millennium is one of the founding members of the Depository Bank Council at the Polish Bank Association appointed to represent banking community to other capital market institutions.

Custodial services are rendered by Bank Millennium's Custody Department – a separate unit offering comprehensive scope of services connected with safe keeping of securities, clearing transactions in securities and servicing corporate actions on the domestic capital market and on foreign markets. The basic offer is supplemented by additional services including comprehensive depository bank service rendered to investment and pension funds. At the end of 2011, Bank Millennium provided Depository service to 49 Investment Funds.

Among Clients of the Custody department, there are reputable domestic and foreign financial institutions (global custody banks, depository banks for global certificates of deposits, investment banks, asset management institutions, insurance companies, collective investment institutions, investment funds) as well as other legal persons actively participating in capital and money market transactions requiring efficient, comprehensive and individualised service.

Value of assets on Clients' securities accounts, as on 31 December 2011, amounted to PLN 27,709 mln, and the number of accounts was 9,912 compared to 8,966 accounts in the preceding year (securities accounts, registers of foreign financial instruments and deposit accounts).

The Bank has been developing its custody product offer in line with developing Polish capital market. In 2011 several projects were introduced having impact upon improvement of quality of custody service rendered by the Bank with implementation of a new IT system to support registration of securities being one of the most important ones. After the solution was implemented many processes were automated and Clients were provided with an opportunity to invest in new types of financial instruments not available in the Bank's offer before.

III.4. INTERNATIONAL ACTIVITY AND INSTITUTIONAL FUNDING

Because in 2011 the international syndicated loans market, which in the past was the Bank's main source of stable FX funding, was still practically inoperative, no new agreements were signed in this respect. However service and management continued of agreements signed earlier with international financial institutions, including especially the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), which as at 31 December 2011 comprised:

- An agreement signed with EBRD in November 2009 on a medium-term facility in the amount of EUR 100 million, assigned for increasing the ability of Bank Millennium to finance SME customers, with maturity in November 2014.
- An agreement signed with EBRD in December 2010, on a loan of EUR 35 million, assigned for financing capital expenditure projects connected with optimising energy consumption in the small and medium enterprise sector, carried out under EBRD's PolSEFF *(Polish Sustainable Energy Financing Facility)* programme, additionally supported with grants available to investors. Final loan repayment shall be in 2015.
- Global Loan agreement, signed in December 2010 with EIB in the amount of EUR 100 million to support the bank's activity in financing SME projects.

Besides the above-mentioned sources of institutional funding, the Group had liabilities from agreements, entered into by the Group in December 2007, regarding securitisation of receivables under the leasing portfolio, which as on 31 December 2011 amounted to PLN 377 million and decreased compared to the end of 2010 as the transaction entered into a gradual amortization period.

Last year the Bank continued projects connected with the ongoing long-term process of expanding the base of credible counterparties and partners on the interbank market, especially in the segment of instruments connected with management of medium and long-term FX liquidity. One of the important aspects of activity in this respect was the signing of more than ten new ISDA agreements (or updating existing ones) with domestic and international banks, which agreements are usually accompanies by fully symmetrical Credit Support Annexes.

The above-mentioned actions notwithstanding, in the past period the Bank continues to perform on an ongoing basis all remaining tasks connected with its comprehensive international activity, as regards attainment of diverse goals, spanning i.a. current financing of own and customers' needs, supporting foreign trade transactions, taking part in international money and FX market transactions, operating on the equity market.

This was helped by the over 20-year old process of development of the Bank's cooperation with its foreign partners and counterparties. The Bank continues to maintain contact with over a thousand correspondent banks and their units located in all of the world's countries, which are important from the point of view of

Polish foreign trade as well as non-trade transactions. In this context particularly vital relations are maintained with banks, which have their offices in such countries as (in alphabetical order): Australia, Austria, Belarus, Belgium, Brazil, Bulgaria, China, Croatia, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hong-Kong, Hungary, India, Ireland, Italy, Japan, Canada, Kuwait, Latvia, Lithuania, Luxemburg, Mexico, Netherlands, New Zealand, Norway, Portugal, Republic of South Africa, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom and the United States.

IV. RISK MANAGEMENT

Risk management plays a key role in the strategy of sustained and steady business growth of the Bank Millennium Group by optimizing the risk/return trade-off within various business lines, as well as in maintaining an adequate risk profile in capital and liquidity. In order to ensure a consistent and effective risk management policy, Bank Millennium Group implemented a comprehensive risk management model, which integrates credit, market, liquidity and operational risks. Risk management comprises identification, measurement, mitigation, monitoring and reporting with respect to individual types of risk and requires the use of a broad spectrum of methods – both qualitative as well as quantitative, including advanced mathematical and statistical tools, aided by appropriate IT systems.

The risk management and control model at Bank Millennium is based on the following main principles:

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;
- all types of risks are monitored and controlled in reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system;

In 2011 a number of initiatives were taken at Bank Millennium in order to improve the process of risk management. These initiatives pertain in particular:

- credit risk – creation of a separate unit responsible for granting rating to clients; two additional models of risk assessment dedicated to new clients from retail segments; revision of PD model (probability of default) for corporates;
- operational risk – verification and update of defined for the Group key risk indicators (KRI) database.

IV.1. Internal Organization

At strategic level, the Supervisory Board and Management Board of Bank Millennium are responsible for defining general risk policy, including approving of the risk management strategy and policy, as well as guaranteeing the necessary resources for implementing this policy.

At operational level, due to the complexity and diversification of the operations of Bank Millennium, the risk management function is supported by specialized committees within the competences specified by the

Bank's Management Board. This is reflected a.o. in the works of the Risk Committee and the activities of five specialized risk committees, i.e.:

- Capital, Assets and Liabilities Committee (CALCO);
- Credit Committee;
- Validation Committee;
- Liabilities-at-Risk Committee;
- Processes and Operational Risk Committee.

Risk Committee pertains the monitoring of the various types of risks. All the Management Board members are members of this Committee which is responsible for monitoring and managing the Group's integrated risk profile, in particular monitoring evolution of various types of risks and compliance with the binding policy, regulations and limits and reviewing principles, policy, rules and practices applied for the risk management and control. Specialized Committees are chaired by Management Board members and incorporate responsibilities for the main areas related to origination, monitoring and management of the specific risks.

The on-going risk management is centrally supervised by the Bank's dedicated unit – Risk Department and its subunits are specializing in particular types of risk or process stages. The Risk Department is responsible for the control of risk in the entire Bank Millennium Group by assuring the overall risk monitoring and harmonizing of the concept, policy and methodology between various business lines and Group entities. The Risk Department is also responsible for informing all the committees on the levels of risk and for proposing the ways of strengthening its control and also for implementation the limits of risk.

The risk governance model is presented below:

IV.2. Capital Management

The capital requirements for Bank Millennium Group calculated as of 31 December 2011 with the use of the standard approach according to the supervisory regulations are presented in the tables below:

Group – Capital requirements (PLN million) resulting from:	31.12.2011	31.12.2010
Credit risk	2 617.4	2 271.0
Market risk	38.7	48.9
Operational risk	225.5	222.4
Total capital requirements of Millennium Group	**2 881.6**	**2 542.3**
Own funds	**4 766.6**	**4 573.8**
Consolidated solvency ratio	**13.2%**	**14.4%**
Consolidated Core Tier 1 ratio	**11.4%**	**12.3%**

Bank – Capital requirements (PLN million) resulting from:	31.12.2011	31.12.2010
Credit risk	2 546.4	2 242.9
Market risk	38.5	48.7
Operational risk	198.9	194.5
Total capital requirements of Millennium Bank	**2 783.9**	**2 486.1**
Own funds	**4 325.3**	**4 181.3**
Solvency ratio	**12.4%**	**13.5%**
Core Tier 1 ratio	**10.7%**	**11.6%**

The capital position measured by the level of capital adequacy ratio went down during 2011: from 14.4% (Group) and 13.5% (Bank) in December 2010 to 13.2% and 12.4% for the Group and Bank respectively in the end of 2011. This decline was preceded by a strong rise reported in 2010, which reflected a growth of total own funds by almost one third as a consequence of the rights issue.

In 2011 capital for credit risk rose by ca. 15%, mainly as a result of higher capital requirements for the corporate portfolio and mortgage loans (responsible for, respectively, c.a. 40% and 36% of the capital requirements growth). These growths were influenced by an increase of corporate exposures by 26% and an increase of mortgage portfolio caused by growth of CHF/PLN exchange rate by 15% y/y. The capital requirements for operational risk did not change significantly, whereas for market risk declined y/y by roughly 20% due to reduction of value of the open positions in general interest rate risk. In the same time, the risk coverage expressed in a level of regulatory own funds grew on the Group by almost PLN 200 million (over 4%).

Bank Millennium Group has been continuing its efforts aiming at implementation of internal rating method of capital requirements calculation for credit risk. In 2011, the Group submitted an updated documentation supporting the IRB application, in line with regulatory requirements. Afterwards, over 2011, KNF and Bank of Portugal (home supervisor of BCP Group) have been performing a validation process of the Group's application. This process has contributed to an overall improvement in the quality of risk management function in the Group.

IV.3. Credit risk

Credit risk means uncertainty about the Client's compliance with the financing agreements concluded with the Group i.e. repayment of the principal and interest in the specified time, which may cause a financial loss to the Group.

The credit policy pursued in the Group is based on a set of principles such as:

- centralization of the credit decision process;
- using specific scoring/rating models for each Client segment/type of products;
- using IT information (workflow) in order to support the credit process at all stages;
- high level of standardizing credit decisions;
- existence of specialized credit decisions departments for particular Client segments;
- regular credit portfolio monitoring, both at the level of each transaction in the case of major exposures, and at credit subportfolio level (by the Client segment, type of product, distribution channels, etc.);
- using the structure of limits and sublimits for credit exposure in order to avoid credit concentration and promote the effects of credit portfolio diversification;
- separate unit responsible for granting rating to corporate client, thus separating the credit capacity assessment and credit transaction granting from his creditworthiness assessment.

In the area of corporate clients in 2011, the Bank Millennium Group focused on adjustment of credit policy to changing economic conditions and improving tools and credit risk management processes, in particular:

- modified the decision-making competences;
- verified collateral policy;
- introduced a new rating model dedicated to corporate clients;
- modified the credit products availability principles, depending on the customer's risk level;
- modified the documentation requirements in the process of granting credit transactions;
- introduced a new model for evaluation of local government units and modified rules for theirs financing.

In 2011, in the retail area a leading role in the credit policy of the Group was dedicated to the activities related to monitoring and improvement of the implementation of changes introduced in 2010, to ensure compliance with the Polish FSA Recommendation T. This process was accompanied by reorganization of the operational activities of the Group that provided an adjustment of credit process to requirements stated in the Recommendation and to ensure the safe development of credit business. The Group also introduced changes to credit procedures to ensure compliance with the requirements of PFSA Recommendation SII, in the area of loans secured by real estate (reduction of the loan period for the purpose of calculating credit capacity to 25 years regardless of the actual loan period) and changes to ensure compliance with the new Consumer Credit Act (introduction of an information sheet for the customer, increase of the amount of the loan being subject to the Consumer Credit Act, changes to the reimbursement of fees in case of cancellation of the loan). In case of retail clients - entrepreneurs, rules of the calculation of credit capacity were unified in process of granting unsecured loan and loan secured by a mortgage.

In addition, Bank introduced two additional models of risk assessment, dedicated to new clients. These models are used in the process of granting standard loan products to individuals engaged in business activities (that are customers of a big commercial network) and to other individuals.

In 2011 the quality of the Group's credit portfolio measured by impaired to total loans ratio improved by 0.9 p.p. The share of receivables with recognized impairment in total receivables decreased from 5.8% (as on 31.12.2010) to 4.9% at the end of 2011. The dominant credit portfolio for households continues to show a very low level of loans with recognized impairment at the level of 2.6%, including mortgage loans at the level of 0.95%. If we include only past due loans (over 90 days), the indicator of such loans for the mortgage portfolio was only 0.35%. The average Loan-To-Value ratio for mortgage loans at the end of 2011 was 82.5% (75.8% at the end of 2010). It incorporates the most current adjustment of real estate prices, which is conducted by the Group twice a year, and the current FX rates.

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The ratio of loans with recognized impairment for corporate portfolio decreased from 15.4% (as on 31.12.2010) to 11.7% at the end of 2011. The improvement of this indicator is linked with the successful restructuring of impaired corporate exposure , sale of a part of past-due corporate portfolio and with a write-off of some clients with 100% of provision coverage.

Main credit quality ratios	**31.12.2011**	**31.12.2010**
Impaired loans (PLN mln)	2 104	2 195
Impaired loans/total loans	4.9%	5.8%
Loans past due over 90 days/total loans	2.3%	2.9%
Total provisions/loans past due over 90 days	123%	108%
Total provisions/loans with impairment (coverage ratio)	57.9%	54.1%

The coverage of impaired loans with total provisions (including IBNR provisions) increased during 2011 year from 54.1% to 57.9% whereas such coverage of loans past-due (more than 90 days) increased from 108% to 123% as at the end of 2011 year.

IV.4. Market Risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolio due to adverse movement in prices of bonds, equities or commodities, interest rates or foreign exchange rates. The framework of market risk management and its control are defined on a centralized basis with the use of the same concepts and metrics which are used in all the entities of the Millennium bcp Group.

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) with a required probability (confidence level) due to an adverse market movement. The values of exposures are defined daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.. In order to assure the adequacy of the VaR model for estimating the risks generated by open positions a back testing process was established which is conducted daily.

In parallel to VaR calculations, in order to estimate the potential economic loss resulting from the extreme changes in the market risk factors, a number of stress tests are conducted for trading portfolios (Trading Areas and Positioning Portfolio).

Stress test scenarios are also used for identifying high market fluctuations and for identifying the actions, which can be taken in order to reduce the impact of these changes in market factors. The following types of market scenarios are applied in stress tests: parallel shifts of the yield curves, more steep or flat shape of the yield curves, variations of interest rate volatility, variations of exchange rates, variations of spreads on FX swaps and cross currency interest rate swaps and historically adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows to have on-line access to the risk exposures in all market risk management areas.

VaR ratios presented in the table below reflect total exposure to market risk in the Group, jointly for the Trading Book and Banking Book. The total risk exposure was low at the end of 2011 and was equal to PLN 19.9 million compared to the binding limit of PLN 91.5 million. The diversification effect applies to the Generic Risk and reflects correlation between its constituents.

(million PLN)

Market Risk in terms of VaR	End of December 2011		VaR (From 31st December 2010 to 31st December 2011)			End of December 2010	
(Group data, PLN mln)	Exposure	Use of limit	Average	Maximum	Minimum	Exposure	Use of limit
Total risk	**19.925**	**22%**	**15.826**	**25.980**	**8.495**	**11.979**	**11%**
Generic risk	16.912	19%	13.023	23.106	5.752	9.247	8%
Interest Rate VaR	16.871	19%	13.041	23.774	5.764	9.264	8%
FX Risk	0.094	1%	0.515	6.847	0.009	0.152	2%
Equity risk	0.000	n.a.	0.000	0.000	0.000	0.000	n.a.
Diversification Effect	0%					2%	
Non-linear risk	0.000	0%	0.007	0.057	0.000	0.022	0%
Commodities risk	0.000	0%	0.000	0.000	0.000	0.000	0%
Specific risk	2.790	7%	2.796	2.982	2.680	2.710	6%

In case of the Banking Book, for the purpose of interest rate risk a sensitivity of non-trading portfolios analysis is carried out, while to mitigate it hedging strategies are applied. Additionally, the Group performs hedging strategies against interest rate risk connected with the fixed rate loan portfolio, in particular with the portfolio of consumer loans and leasing portfolio. The process is supplemented by calculation the hedged portfolios' market value changes in a series of additional stress tests carried out every month. Stress tests scenarios assumes the change of shape and location of yield curves and aims at verification of the hedge effectiveness.

IV.5. Liquidity Risk

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the funding needs arising from the Group's obligations.

Bank Millennium Group implements liquidity management on a centralized basis. Therefore, both the funding requirements and any surplus of liquidity subsidiaries are managed through transactions with the Bank.

The process of the Bank's planning and budgeting covers the preparation of a liquidity plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

In 2011 the Group's liquidity, as measured by the loans/deposits ratio (in accordance with the definition under the table) changed from the level of 99.5% to the level of 106.8%. This was caused by faster dynamics of the loan portfolio compared to the growth of deposits. During 2011 the net loans and advances to customers growth by approx. 12.5% however partially due to CHF appreciation. The mortgage loans increased by 13.7% compared to the level of 31 December 2010. Without the FX effect, the rise would be just around 3%. Corporate loans portfolio increased during 2011 year by 15.9%. In the same period deposits grew by 5.7%, of which stable deposits of households grew by strong 10%, due to an attractive offer and effective marketing campaigns. At the end of 2011 total deposits of the Group reached PLN 37.4 billion There was also significant increase of Clients' funds acquired through SBB transactions. Consequently, the large, diversified and stable funding from retail and corporate sectors remains the main source of financing of the Group.

Loans/Deposits ratio	**31.12.2011**	**31.12.2010**
Loans/Deposits *	106.8%	99.5%

**including obligations (bonds) on leasing securitization, bonds for individual Clients and sell-buy-backs with Clients*

The Group manages its FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, FX swaps and cross-currency interest rate swaps transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Bank has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Bank is obliged to place deposits as collateral with counterparties in order to secure the settlement of derivative instruments in the future, and in case of favourable FX rates changes (PLN appreciation) receives deposits as collateral from the counterparty. The Bank assesses the possibility of unfavourable changes of FX rates (especially CHF and EUR, which causes increase of liquidity needs) and analyses the impact on liquidity risk and reflects this risk in the liquidity plans.

The estimation of the Group's liquidity risk is carried out both with the use of the ratios defined by the supervisory authorities and own indicators, for which exposure limits were also established. The evolution of the Group's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: immediate liquidity and quarterly liquidity. They measure the maximum borrowing requirements (negative value), which could arise on a particular day, taking into consideration the cash-flow projections for spot and for 3 months, respectively. In 2011 both liquidity indicators were kept above the minimum limits, despite repayment of bilateral loan and subordinated debt of respectively EUR 200 million and EUR 80 million. Moreover, during 2011 the Group issued additional structured bonds (total balance of PLN 395 million as at 31 December 2011) impacting the level of long-term stable sources of funding.

The Bank monitors liquidity on the basis of internal liquidity measures, taking into account in particular the impact of FX rates on the liquidity situation. The PLN depreciation in the second half of 2011 year caused a temporary decrease in internal liquidity measures.

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 2011 all the liquidity gaps were maintained at the levels significantly above the minimum limits, both for normal as well as stress scenarios.

For the purpose of supervisory quantitative liquidity measures management (Bank solo basis), the Bank utilizes a dedicated model, which is based on the concept of minimum buffers and allows performing simulation analyses. In 2011 the supervisory limits for liquidity measures, both short- and long-term, have not been exceeded.

Liquidity stress tests are performed at least quarterly, in order to understand the Bank's liquidity-risk profile and to ensure that the Bank is in a position to fulfill its obligations in the event of a liquidity crisis and to update the Liquidity Contingency Plan and management decisions.

The Bank has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan is updated on a quarterly basis. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

IV.6. Operational risk

Operational risk management is based on the processes structure implemented in the Group and overlapping the traditional organisational structure. Current management of the specific processes, including the management of the profile of process operational risk, is entrusted to Process Owners, who report to all other units participating in the risk management process and are supported by these units.

In order to identify, analyse and assess operational risk, the following tools are applied:

- loss data gathering,
- key risk indicators monitoring,
- risk self-assessment.

These tools are the basis of the operational risk management model and are essential for the continuous process of the Group processes improvement. In particular, in 2011 risk indicators database defined for the Group has been verified and updated.

V. HUMAN RESOURCES MANAGEMENT

V.1. Employment

In 2011 Bank Millennium Group pursued strategy of sustainable human resources management. As of 31.12.2011 the number of the Bank's employees totalled 5 886 and was by 132 full time equivalents higher than at the end of December 2010. This increase was related to the development of business operations and first of all concerned the employees employed in sales and direct customer service.

Structure of employment at Bank Millennium (full time equivalents)

	31.12.2011	31.12.2010	Change
Branches and direct sales	3 944	3 709	235
Head Office	1 942	2 045	-103
Total	5 886	5 754	132

Since 2002, under "Come and Grow with us" programme, the Bank has been offering young people an opportunity to gain experience, develop competencies and interests.

In 2011, the Bank organised under this programme the following:

- Paid on-the-job training for students of all years and lines of studies,
- Variety of competitions, whereby the Bank has been trying to stimulate creative thinking and business intuitions among students,
- Training, workshops and presentations for students in academic centres throughout the country.

The Bank took also part in the largest fair and educational events organised by such student organisations as AIESEC and BEST. Thus, the Bank has been reaching out with its offer to young people and may adjust its actions to their needs.

Traditionally, during such events, development programmes addressed to the outstanding students in final years of their studies and graduates are promoted. In 2011, within such programmes we accepted already the tenth wave of participants of our two-year People Grow - Management Competencies Development programme. The programme provides a unique opportunity to get to know the Bank through system of rotations between departments and involvement in projects from various areas of banking at the Bank's Head Office in Warsaw. The programme offers an opportunity of comprehensive competence development and training, and after two years - prospects to find a proper place for yourself in the structure of the Group. Yet again, the Expert Start Up - Expert Development Programme, was implemented, this time in the IT area. The programme was addressed to students and graduates of IT studies who intended to develop themselves within one speciality and saw their future in the IT banking.

V.2. Development

In 2011, the Bank continued its training projects started in the previous years as well as launched numerous new initiatives. "Academy of knowledge and skills of employees of Bank Millennium S.A. Group", training project co-financed by the EFS, deserves special attention. Under this project, employees of the Bank could improve their skills in use of such tools as Excel, Access, Power Point and SQL, as well as start a cycle of management training. It is worthwhile to mention that more than 20% of the employees trained under the EFS project were 45 or more years old.

The year 2011 was important from the point of view training for the retail network. The training programme for new employees was fine-tuned and thus they could start their work in the outlets in an even more effective manner. In the first year of their work, branch employees broaden their product and system knowledge in a cycle of traditional certified training programmes supported by e-learning. New branch managers take part in sales team management workshops. And since 2011 all the heads of retail branches have been covered by training under a special customer service quality project. For a few years now, all the sales network employees have been able to use individual and group coaching delivered by a group of internal coaches. In 2011, a crisis management training project, which had been started a year earlier, was continued, with special emphasis on Bank robbery scenario.

Employees of the Bank took also part in a great deal of external training programmes and conferences. Employees of the Head Office had internal training opportunities for soft skills improvement, for instance time management or assertiveness .

In 2011, corporate banking employees were trained in customer service, corporate banking products, banking computer systems and transaction banking products. Additionally, Macro-regional Directors, Regional Directors and best corporate advisors could take part in external training in "Advanced financial analysis".

Apart from training in a workshop and coaching format, a lot of employees of the Bank were also interested in e-learning. E-learning courses were used to communicate to the employees changes in the offer, processes and bank regulations, and to pass on knowledge from areas required by internal or external regulations, among others:

- Counteracting money laundering and financing terrorism,
- Information security and protection,
- New work time management system,
- MiFID implementation,
- Occupational health and safety.

Similarly to the previous years, e-learning courses and tests constituted one of the pillars of the training processes for the new employees of the Retail Banking Department. And a new initiative was a support effort for the competence management project in the Operations Department, whereby numerous courses for operating procedures in this unit were developed.

VI. ADDITIONAL INFORMATION

VI.1. Information on Important Agreements which have an Impact on the Bank's Activity

In 2011 Bank Millennium has not concluded any significant agreement which would have an impact of the Bank's activity.

VI.2. Internal Control, Compliance Policy and Corporate Social Responsibility

Internal Control

The Bank has an internal control system tailored to its organisational structure, which comprises organisational units of Head Office, Branches and subsidiaries. The system includes internal control procedures defined in the form of internal control bylaws for individual units of the Bank, as well as internal control measures, which include controlling rules, limits and procedures as well as all and any types of activities, which aim to control quality and correctness of tasks performed in the Bank.

The Internal Audit Department is a specialised unit of institutional control, which aims to provide independent assessment of adequacy, correctness and effectiveness of internal control and management systems, including risk management. This is in particular connected with assessment of quality, correctness and security of conducting banking activities. In fulfilling its mission Internal Audit takes into account the strategic goals and tasks of the organisation, as set by the Management Board and Supervisory Board. The process of auditing is carried out in keeping with Internal Auditing Methodology, which promotes international auditing standards and best banking practices.

Activity of Internal Audit is planned, based on the annual audit plan. The basis of the planning process is assessment of risk of individual areas and processes of the Bank, which serves the purpose of identifying increased risk and supports identification of priorities and resources for performance of tasks. The planning process takes into account consultations with senior management as well as owners of key processes. The annual audit plan, approved by the Audit Committee of the Bank's Supervisory Board, is carried out on a quarterly basis by experienced and highly skilled professionals.

Internal audit evaluates regulations implemented and updated in the Bank, providing independent and objective assessment and advice to units as regards the audited area and builds positive relations with the audited units to capture common added value, improving the Bank's operation. Advisory activities may be carried out if their nature does not violate the principle of objectivity and independence of an internal auditor.

In 2011 the Internal Audit Department was carrying out audit tasks in the Bank, in the Bank's subsidiaries, in external companies, to which the Bank had outsourced performance of banking and banking-related activities to an extent permitted by binding laws, as well as within Millennium bcp Group. Planned activity involved i.a. performance of process, financial and outlet audits as well as MIFID and IRF (*Independent Review Function*) audits, performed in accordance with requirements of the New Capital Accord for processes of management of credit, market and operational risk. Tasks performed by the Internal Audit Department also included investigations and preventive checks.

The Internal Audit Department is independent, subordinated to the Chairman of the Management Board and reports audit results to the Audit Committee of the Bank's Supervisory Board.

Compliance policy

Lack of legal compliance of internal regulations and the ensuing risk of legal or regulatory sanctions, material losses or reputation risk is one of the areas threatening the activity of every bank. Therefore Bank Millennium has the Compliance Department, the task of which is to ensure compliance with Acts of Law, secondary legislation, rules, related self-regulatory organisation standards as well as codes of ethics, relating to banking activity. Monitoring compliance with both internal as well as external regulations, Bank Millennium Group considers the following to be particularly important:

- Preventing money laundering and financing of terrorism;
- Ensuring consistency of Bank Millennium's internal normative acts with generally binding laws as well as recommendations issued by supervisory authorities,
- Managing conflicts of interest,
- Restricting personal transactions and protecting confidential information related to Bank Millennium, financial instruments issued by the Bank as well as information connected with purchase/sale of such instruments.

Companies from Bank Millennium Group undertake appropriate actions and apply appropriate measures for the purpose of ongoing and continuous tracking of changes occurring in generally binding legal regulations as well as recommendations and guidance given by supervisory authorities, both national as well as of the European Union.

For the purpose of ensuring compliance of internal normative acts with generally binding legal regulations the solutions adopted by Bank Millennium Group reflect the need for periodic reviews of all internal normative acts, binding in the Group.

The scope of actions undertaken by the Group may generate a conflict of interest between these actions and the interests of Customers. The Group's main principle is to take all reasonable steps to identify a conflict of interest between the Group and its Customers, as well as between individual Customers, and also to establish rules ensuring that such conflicts have no adverse impact on Customers' interests.

Companies from Bank Millennium Group undertake appropriate also actions and to ensure conduct concerning personal transactions, which is compliant with standards and laws. These actions and measures are meant to, according to the circumstances, to restrict or prevent performance of personal transactions by Relevant Persons in situations, which may cause a conflict of interest or be involved with access to confidential information or to data about Customers' transactions. Shares of Bank Millennium are admitted to public trading on the Warsaw Stock Exchange. Such status requires special attention and observance of the obligation to maintain highest standards for transparency of financial markets. It is the policy of Bank Millennium Group to maintain strict control as regards protection of the flow of Confidential Information. The Bank forbids use and disclosure of Confidential Information in whatever form. Purchasing and selling the Bank's shares, derivative rights concerning the Bank's shares or any other financial instruments thereto related is forbidden during closed periods.

The Bank Millennium Anti Money Laundering (AML) and Terrorism Financing Programme is a comprehensive system for identifying areas of threat, transactions eligible for registration and transactions which may be involved with money laundering or financing of terrorism, taking appropriate actions towards them as well as organisational procedures and solutions, ensuring efficient operation of the programme.

Key matters covered by the Bank Millennium Programme involve:

- Detailed guidelines in the matter of identification of natural and legal persons, organisational units without legal personality as well as their representatives. Such guidelines contain specification of necessary data and lists of documents necessary for building a relevant dossier,
- Guidelines and procedures concerning mandatory registration of transactions with value above EUR 15,000 as well as monthly reporting on such transactions to GIIF (General Inspector of Financial Information),
- Key methods of identifying suspicious transactions, especially connected with money laundering,
- Exhaustive guidelines, lists of criteria, warning and alarm signals, used for identifying or surveying of suspicious transactions,
- Supervision and control over implementation of the AML Programme, distribution of duties between individual organisational units, annual report to the Bank's Management Board on implementation of the Programme. The AML Programme also contains detailed procedures concerning following matters:
    - Analysis of transactions and internal reporting in case of suspicion or identification of a possible case of money laundering,

- Suspicious Activity Reports (SAR) – preparation, examination, internal acceptance and delivery to GIIF,
- Preparation and potential suspension of transactions and/or blocking of accounts,
- Delivering confidential information to a prosecution office and/or GIIF.

Corporate Social Responsibility

Bank Millennium, as an institution of public trust, conducts its business activity based on valid legal regulations, best market standards and transparent ethic rules. With the assumption that mutual cooperation based on respect for the rights and goals of each party lies at the root of effective business, the Bank attaches special importance to working with all groups of its stakeholders. The most important among them are: customers, employees, business partners and suppliers, shareholders and investors, social partners and local communities. Building lasting, positive, transparent and mutually beneficial relations with them is an important part of the Bank's strategy.

In 2006 the Management Board of Bank Millennium set up a working team, which was tasked with making a review of the Bank's efforts connected with application of CSR principles and preparing a report on these efforts. The first "2006 Corporate Social Responsibility" report was published in 2007 and since that time the Bank publishes CSR reports annually (the report are available on the Bank's website at www.bankmillennium.pl). Soon the latest "2011 Corporate Social Responsibility" report will appear, prepared based on Global Reporting Initiative Sustainability Guidelines G3 (GRI G3) level C.

In 2011 Bank Millennium was yet again listed in the RESPECT Index – Central-Eastern Europe's first index of socially responsible companies. The RESPECT Index comprises companies listed on the Warsaw Stock Exchange, which meet the most stringent management standards regarding corporate governance, information and investor relations as well as in environmental matters plus social and labour relations. The list of REPECT Index companies is updated and published semi-annually.

VI.3. Information on the agreements with the entity authorised to audit financial reports

In 2011, similarly as in previous years, the audit of Bank's financial statements was performed by KPMG Audyt Sp. z o.o. On 28 January 2011 the Supervisory Board of the Bank adopted a resolution on selection of KPMG to perform audits of annual financial statements of Bank Millennium for 2011.

Stated below is remuneration received by KPMG Audyt Sp. z o.o. on account of examination/review of financial reports of the Capital Group of Bank Millennium S.A under concluded agreements:

Auditor's Remuneration: (PLN thous.)	**2011**	**2010**
for examination and agreed procedures connected with review of periodical consolidated reports with respect to the dominating entity	1 350	1 350

The remuneration for examination comprises amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. for professional services connected with examination of the Bank's standalone and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of 19 October 2011 on examination regarding 2011) and the review of the condensed interim financial statements of Bank Millennium SA and condensed interim consolidated financial statements of Capital Group of Bank Millennium S.A (resulting from the agreement of 8 June 2011 on review of the semi-annual financial report on the half-year ending on 30 June 2011).

VI.4. Other information

The detailed information on the Shareholders, Supervisory Board, Management Board (including the remuneration of the members of the Management Board and Supervisory Board), as well as observance of the principles of the corporate governance can be found in a separate "Corporate governance report", which was published together with this Report.

Other information regarding:

- Numbers and values of the execution titles issued by the bank,
- Guarantees and sureties granted,
- Transactions with related companies,
- List of the biggest court cases, arbitration proceedings before an authority or public administration

can be found in "Consolidated financial statement of the Bank Millennium Group for 2011".

VII. STATEMENT OF THE MANAGEMENT BOARD

Presentation of asset and financial position of Bank Millennium in the financial report

According to the best knowledge, the Annual Financial Statements of the Bank Millennium S.A. as at 31 December 2011 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Bank and its financial result. This Annual Management Board Report on the Activity of Bank Millennium contains a true picture of development, achievements and condition of the Bank.

Selection of an entity authorized to audit financial statements

The entity authorized to review financial reports that audits these Annual Financial Statements of the Bank Millennium S.A. as at 31 December 2011, was selected in accordance with the regulations of law. The entity and chartered accountants, who performed the audit, satisfied all the conditions required to issue an unbiased and independent audit report, as required by the national law.

SIGNATURES

Date	Name and surname	Position/Function	Signature
28.02.2012	Bogusław Kott	Chairman of the Management Board	....
28.02.2012	Joao Bras Jorge	Deputy Chairman of the Management Board	....
28.02.2012	Fernando Bicho	Member of the Management Board	....
28.02.2012	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
28.02.2012	Maria Jose Campos	Member of the Management Board	....
28.02.2012	Andrzej Gliński	Member of the Management Board	....
28.02.2012	Wojciech Haase	Member of the Management Board	....
28.02.2012	Artur Klimczak	Member of the Management Board	....